

SEPTÉMBRE 21, 1992

# Business Insurance

Reporting weekly for corporate risk, employee benefit and financial executives / \$2.00 a copy; \$80 a year

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An aerial photograph of a coastal city, likely San Francisco, showing a dense urban area with numerous skyscrapers and residential buildings. A large bay is visible in the middle ground, with a bridge crossing it. In the background, there are mountains under a clear sky. In the foreground, there are some yellow flowers.

36th  
Rendez-Vous  
de Septembre

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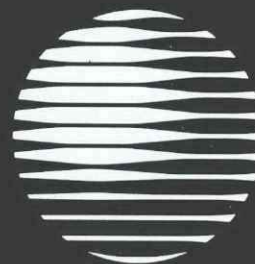
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## \$25 million settlement reached in United Flight 232 lawsuit

CHICAGO—The family of a Michigan man who died in the 1989 crash of United Air Lines Flight 232 in Sioux City, Iowa, settled a wrongful death lawsuit last week for \$25 million in cash the day the case was set to begin trial.

The suit was filed by the surviving wife and children of Gary Bierlein, a self-made millionaire from Saginaw, Mich., who was 39 when the plane crashed on July 19, 1989, killing Mr. Bierlein and 111 others (BI, July 24, 1989). United Air Lines Inc.; McDonnell

Continued on next page

## Iniki damage may cost insurers \$800 million

By JOANNE WOJCIK

LIHUE, Hawaii—Insurers may face about \$800 million in claims from Hurricane Iniki, according to early unofficial estimates from the London market.

However, at least one loss specialist feels that if the island of Kauai's No. 1 industry—tourism—remains hobbled, business interruption claims could drive insured losses as high as \$5 billion.

Kauai's remote location and downed communications have prevented insurers from getting

a firm handle on insured losses on the island, even though Hurricane Iniki struck the island more than a week ago.

Many insurers are using boats and military cargo planes or are fighting for the few seats available on the limited commercial flights to Kauai to gauge the damage and adjust claims from the Sept. 11 hurricane, which packed up to 160-mph winds.

"The biggest problem will be the tourist trade. The business interruption claims on the hotels alone will be unbelievable," said

Justin Balcombe, head of the catastrophe unit at Balcombe Group P.L.C., a loss assessor in Manchester, England, that has personnel viewing the damage. Unlike loss adjusters, loss assessors represent policyholders.

"It is not just superficial damage. There has been erosion of the structures and damage to the foundations," he said.

Some of the hotels on Kauai will lose business for up to nine months; standard business interruption policies offer coverage

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AP/Wide World Photo

A resort in the Poipu Beach area of the Hawaiian island of Kauai was devastated by the 160-mph gusts packed by Hurricane Iniki.

## The year of the cat

Andrew leaves top industry executives searching for answers in Monte Carlo

By STACY SHAPIRO and JAMES M. BURCKE

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36th  
Rendez-Vous  
de Septembre  
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MONTE CARLO, Monaco—Reinsurance and insurance industry executives have profound questions about the future of the market.

Answers, though, seem to be few and far between.

Few of the executives attending the 36th Rendez-Vous de Septembre, the annual reinsurance gathering in Monte Carlo, would venture a long-term view of the market—without some type of qualification.

After five years of unprecedented catastrophes capped by Hurricane Andrew and a series of financial disasters in the London and Scandinavian markets, nearly all attending the Rendez-Vous agreed that insurance and reinsurance rates must rise.

However, just when that will happen is still anybody's guess.

Some say the losses created by recent hurricanes and the red ink on British and Scandinavian underwriters' financial statements will cause reinsurance prices to harden at year-end, with primary insurance rates headed upward by next year.

One reinsurance executive says his company will insist that ceding companies start to get "their house in order" if they want proportional capacity.

Others, primarily U.S. executives, disagree, saying they've heard that song before. There is still too much capital, especially in the U.S. market, to support across-the-board rate increases, they contend.

Others point out that Hurricane Andrew is battering only selected segments of the market, like the huge direct-writing U.S. insurers. Not enough pain is being felt by all players to turn the entire marketplace around, they reason.

Still others tick off reason after reason why the market should turn, only to conclude that it won't happen anytime soon. Principal among the rationales:

Managements lack the will, and sometimes the courage, to raise rates.

About the only thing on which nearly everyone attending the Rendez-Vous agreed: Rates for property catastrophe coverage will rise even further during year-end renewals, while cat cover capacity will be reduced and attachment points increased. And, the retrocessional market will further tighten, with some predicting that retrocessional capacity will be virtually impossible to find.

"There's no question that cat prices will go up, but will they match loss costs?" asked Ajit Jain, president of Berkshire Hathaway Inc.'s professional liability and specialty risks division in Stamford, Conn.

That's where the consensus generally ends. Many executives honestly admitted they had no idea where the overall market is headed. Most conversations during the Rendez-Vous were begun with the words, "What are you hearing?"

Part of the reason for the confusion was that discussions inevitably centered on Hurricane Andrew and its effect on property catastrophe reinsurance, even though cat covers account for no more than 20% of the overall reinsurance marketplace.

In short, it was the "year of the cat" in Monte Carlo.

One broker admitted that he had hardly heard the word "casualty" mentioned during an entire week of meetings. Those who did discuss casualty issues said they expected reinsurance rates to hold steady at year-end.

Others complained that all the talk of Andrew and cat covers upset their agendas, which left still more questions unanswered.

"We expect to see a harder market, but what exactly we will see, we do not know," summed up Mahmoud M. Abdallah, senior vp of American Re-Insur-

Continued on page 48

## Doctors, legislators unveil novel plans for health reform

By JERRY GEISEL

WASHINGTON—With health care reform legislation dead this year, physician and congressional groups are making dramatic new proposals to try to lead the reform movement next year.

The 77,000-member American College of Physicians last week unveiled a new approach to the play-or-pay concept of expanding health insurance. The organization, the second-largest doctors group in the nation, calls for tough new cost controls and shifting a huge chunk of employ-

ers' health care costs to a public plan.

Breaking ranks with the largest medical lobby—the American Medical Assn.—the group is advocating a national limit on health care spending with fixed, uniform rates to meet that limit.

Another key component of the plan would shift individual employee claims of more than \$50,000 and coverage for employees and retirees age 60 and older to a public plan.

"The system is racing toward a meltdown. Only a budget limit

Continued on page 4

### No threat from Nordic mess: Analysts

## Skandia America, Home insulated

By JUDY GREENWALD

More developments in Scandinavian insurance crisis Page 13

NEW YORK—The turmoil now engulfing Scandinavia's insurance and financial markets will have little effect on two major U.S. insurers with Swedish parents, observers say.

Skandia America Reinsurance Corp., a unit of Skandia Holding A.B., and The Home Insurance Co., which is 60% owned by Trygg-Hansa SPP Holding A.B., are regarded as strong enough and sufficiently independent to withstand any financial prob-

lems at their parent companies.

Skandia America's planned initial public offering, through which Skandia Group plans to reduce its equity in the U.S. reinsurer to a minority share, also is not expected to be adversely affected, analysts say.

In addition, U.S. insurers that buy reinsurance in the Scandinavian market are unlikely to en-

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## Update

**\$25 million air crash settlement***Continued from previous page*

Douglas Corp., which manufactured the DC-10 jetliner; and General Electric Co., which manufactured the engine, were all named as defendants.

The survivors of 39 other people who died in the crash have filed suit against the defendants for compensatory and punitive damages in Cook County Circuit Court, but their cases probably will not go to trial until early next year, said Kevin G. Burke, an attorney with Corboy & Demetrio in Chicago, which represents the Bierleins and other families.

The Bierlein case was settled more quickly because the family did not seek punitive damages. In return, the defendants agreed not to contest liability, Mr. Burke said.

**Bush unveils family leave plan**

WASHINGTON—President Bush's plan to provide tax credits to small businesses that offer family leave programs would cost \$2.7 billion over five years, the Treasury Department says.

Mr. Bush unveiled his proposal last week after repeating his threat to veto a family leave bill Congress has passed.

Under the bill, S. 5, companies with more than 50 employees would have to provide 12 weeks of unpaid job-protected leave and continue to offer health care benefits to workers on leave (*BI*, Sept. 14).

Under the Bush proposal, employers with fewer than 500 workers that provide family leave could get an annual tax credit of up to \$1,200 per employee on leave, or a maximum credit of \$100 per week for 12 weeks. To earn the tax credit, employers would have to guarantee jobs during leave and continue providing benefits.

The administration plan has not been introduced in Congress as legislation.

**U.S. seeks Pan Am sanctions**

NEW YORK—Pan American World Airways Inc. and its lawyers knowingly pursued groundless claims against the U.S. government in an attempt to shift the blame for the 1988 terrorist bombing of Pan Am Flight 103 over Lockerbie, Scotland, lawyers for the government and victims' families allege.

The government and plaintiffs' lawyers have separately pursuing motions that seek sanctions against Pan Am and defense lawyers hired by Pan Am's lead liability insurer, U.S. Aircraft Insurance Group.

The government's motion seeks payment for 18,873 hours spent by government lawyers and agencies responding to Pan Am's charges, along with \$202,817 in U.S. Justice Department costs.

The motions have been served but will not be filed in U.S. District Court in Brooklyn until shortly before a scheduled Oct. 2 hearing.

In seeking to make the government a third-party defendant in crash litigation, Pan Am charged that the Central Intelligence Agency and Drug Enforcement Agency knew of the terrorist threat before a bomb exploded on Flight 103, killing 259 people on board and 11 on the ground, the motion says. Pan Am pursued the charges although the airline in fact had reason to believe the allegations were false, the government says.

A federal judge dismissed the government as a defendant before trial, and a jury on July 10 found Pan Am guilty of willful misconduct for failing to detect an unaccompanied bag containing the bomb.

The finding removed the Warsaw Convention's \$75,000 per passenger limit on compensatory damages and exposed Pan Am and its insurers to liability that could reach \$500 million (*BI*, July 20).

Pan Am has served papers opposing the motion.

**Garamendi combats redlining**

LOS ANGELES—Following the California Insurance Department's analysis of insured and uninsured property losses from the Los Angeles riots, Commissioner John Garamendi is proposing new rules to discourage redlining by insurers.

Mr. Garamendi also is vowing to crack down on unlicensed and shaky insurers and closely monitor how all insurers pay claims from the riots (*BI*, May 11; May 4).

The proposed regulations would increase penalties for violating antidiscrimination laws and give insurers incentives to do business in poor urban areas. Insurers that demonstrate "exceptional service" to such areas could use higher rates of return in their Proposition 103 calculations, while those with poor records would be restricted to a lower rate of return, the Insurance Department said.

Mr. Garamendi also proposed requiring insurers not licensed in California to: demonstrate an audited minimum of \$15 million in capital and surplus; maintain a U.S.-based trust fund of at least \$5.4 million; have at least three years of experience in selling the line of insurance; and sell through brokers licensed by the state.

Unpaid riot-related claims owed by insurers not licensed in California total more than \$43 million.

*Updates continued on page 70*

**Errors & omissions**

• Lloyd's of London syndicate 529 underwritten by Adrian Underwood and managed by Sterling Underwriting Agencies Ltd. does not write property coverage for real estate company VMS, as reported in the Sept. 7 issue.

• Two insurance companies were inadvertently omitted from the listing of surplus lines insurers in the Aug. 17 issue. Their full listings appear on page 28.

**Starkly different visions**

Aides to Bush, Clinton square off over health care policy

By JERRY GEISEL

WASHINGTON—If Arkansas Gov. Bill Clinton is elected president, he will seek to limit health care spending and require all employers to offer health care coverage or pay a premium to a public plan to cover uninsured workers.

"We must have a means to bring fiscal discipline to the health care system," says Bruce M. Fried, coordinator of the Clinton for President Health Care Advisory Group.

Without national spending limits or targets, health care costs will continue to spiral out of control, he added.

At the same time, employers have a "basic obligation" to offer health care coverage to workers, said Mr. Fried, adding that an employer health care mandate would control cost shifting by hospitals and doctors.

By contrast, President Bush, if re-elected, definitely will not propose national health care spending limits or an employer health care mandate, a top Bush adviser says.

When prices are set by the government, the system becomes "rigid" and innovation is blocked, says Gail Wilensky, former administrator of the Health Care Financing Administration and now a domestic policy adviser

to President Bush.

Benefit requirements, Ms. Wilensky says, hinder efforts by large companies to offer benefit packages that meet company and employee needs.

And, if Congress sets the benefits that should be included in an employer's health care plan, legislators will keep increasing the level of benefits that must be offered, she argued.

"We've learned at the state level" that is what would happen, Ms. Wilensky said.

Mr. Fried and Ms. Wilensky squared off last week at a meeting sponsored by the Coalition to Preserve Health Benefits, a

*Continued on page 72*

**Pollution coverage split**

Florida court cites drafting history in policyholder victory

By JOANNE WOJCIC

TALLAHASSEE, Fla.—The pollution exclusion clause in comprehensive general liability policies does not bar coverage for gradual pollution based on the exclusion's drafting history, the Florida Supreme Court has ruled.

The Sept. 3 decision marks the fourth time a state high court has cited the exclusion's drafting history in ruling in favor of policyholders on this critical issue.

The Florida court joins the highest courts of Colorado, Georgia and Wisconsin in ruling that a standard pollution exclusion clause contained in many CGL policies does not preclude coverage for gradual pollution that was neither intended nor expected by the policyholder.

The Colorado Supreme Court in 1991 found that the pollution exclusion does not relieve insurers of their duty to defend a policyholder facing hazardous waste cleanup litigation (*BI*, June 17, 1991).

The Wisconsin Supreme Court in June 1990 and the Georgia Supreme Court a year earlier ruled that

*Continued on page 20*

Ohio's highest court denies CGL coverage for gradual pollution

By DOUGLAS McLEOD

COLUMBUS, Ohio—Pollution from two Ohio landfills was not "sudden and accidental" so coverage of related liabilities is therefore barred by the pollution exclusion in comprehensive general liability policies, the Ohio Supreme Court has ruled.

The court last week unanimously overturned a lower court ruling that a clause affording coverage for "sudden and accidental" pollution means only that the pollution must be "neither expected nor intended" by the policyholder.

Instead, the Supreme Court found that "sudden" must be given the temporal meaning of "abrupt" or "quick" and that the exception thus doesn't provide coverage in cases of gradual seepage from a landfill.

The ruling conflicts with another recent decision on the same issue by the Florida Supreme Court. Four state supreme courts have now sided with policyholders on the issue, while four others have found for insurers.

Insurer attorneys made much of their Ohio

*Continued on page 71*

**Deadlines approach for two international directories**

Deadlines are approaching for two *Business Insurance* directories.

One directory will list global property/casualty insurers, and another will include multinational employee benefit networks. These directories will be published in the Nov. 9 issue, which will contain a spotlight report on trends in the international insurance marketplace.

There is no charge to be included in the directories; however, companies that wish to be listed must fill out and return a *BI* questionnaire. The deadline for insurers and benefit networks to return completed questionnaires is Oct. 2.

**Inside**

✓ Keep the push for tort reform, this week's editorial says. **PAGE 8**

✓ Western International Insurance Co. in Huntington Beach, Calif., succumbs to the L.A. riots as a court declares it insolvent and orders it liquidated. **PAGE 10**

✓ The Scandinavian insurance crisis continues to unfold as Hafnia Holdings puts its subsidiaries on the selling block. **PAGE 13**

✓ The changing complexion of the war in Bosnia-Herzegovina raises concerns for print and broadcast news outfits that offer life and accident insurance for employees working in the conflict zone. **PAGE 13**

✓ The states have a rightful claim to insurance regulatory authority, a New York regulator said at the American Risk & Insurance Assn. meeting in Washington. Conference coverage begins on **PAGE 22**

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# Voters anticipate new benefit taxes within next year

By JERRY GEISEL

WASHINGTON—A majority of U.S. voters expect Congress will impose new taxes on employee benefits next year, though they are split over which of the presidential candidates is more likely to propose a benefits tax, a new survey finds.

Voters remain staunchly opposed to any benefit taxes and will oppose congressional candidates who favor them, according to the "Consumer Caravan" study.

Of the 1,000 voters surveyed in August by Opinion Research Corp. of Princeton, N.J., 55% said they expect Congress to increase taxes on benefits next year, while 26% do not expect new benefit taxes and 19% are not sure.

However, there was no consensus on whether President Bush or Gov. Bill Clinton would be more likely to turn to benefits as a revenue source.

For example, 38% said Gov. Clinton would be more likely to increase taxes on benefits if

elected president, while 36% said President Bush would be more likely.

Another 10% said one candidate would be about as likely as the other to try to increase taxes if elected president.

The remainder either were not sure or thought neither would likely try to increase taxes on benefits.

Earlier this year, the Bush administration was considering a variety of new benefit taxes, including barring employers from taking tax deductions on health care costs that exceed a certain level, or taxing employees on employer-provided health care premiums exceeding a certain amount. The proposals, though, never were formally proposed because of the intense opposition they generated (BI, Jan. 20).

Gov. Clinton has not directly spoken out on benefit taxation. But, like President Bush, he has endorsed raising Medicare taxes on upper-income retirees (BI, July 20).

Currently, employers can pro-

*Continued on page 26*

# As courts clog, ADR wins favor

## Firms seek new ways to settle disputes

By EILEEN P. GUNN

When a group of investors filed suit last August in California state court against 69 real estate developers and 20 insurers over investment fraud and construction defects, the trial was scheduled to last a full year. Defense costs were estimated at \$500,000 to \$750,000 per insurer, and claims totaled \$25 million.

But two months before the trial date, a private mediator sat down with the parties. After 10 days of mediation spread over a six-week period, the parties settled the dispute for \$2.5 million. The mediation fee, paid for by the defense, was about \$27,000.

American courts—and, some say, U.S. businesses—are groaning under the weight of civil lawsuits.

Some 18.5 million—including routine suits over wills, small claims and the like—were filed in 1990 alone, says the National Center for State Courts.

With the court system woefully ill-equipped to handle that massive load, corporations are increasingly turning to alternative dispute resolution mechanisms, like mediation and arbitration, to settle disputes.

Both non-profit and for-profit organizations offer ADR services. The methods they employ can be used to resolve a broad spectrum of conflicts, ranging from two-party personal injury disputes to multiparty international contract disputes.

Advocates of ADR say its advantages over the civil justice system are that it settles disputes more quickly, costs less than fil-

*Continued on page 29*

# Charting a course in marine insurance

## Insurers told to weed out shipowners

By GAVIN SOUTER

BERN, Switzerland—Marine underwriters have the power—and duty—to force shipowners with substandard vessels and crews out of business by raising rates and imposing tougher standards, a leading marine underwriter says.

Quality shipowners will survive this weeding-out process, he says.

And as long as these shipowners cooperate with underwriters and provide reliable data on their vessels and crews, they will be supported by insurers and should receive better loss pre-



## Oil spill statute, poor crews top P&I club woes

By MICHAEL BRADFORD

HOUSTON—Protection and indemnity clubs have been sailing through rough seas in recent years as the frequency and severity of claims continue to surge.

While P&I clubs say premiums have been raised to offset soaring claims, some shipowners complain that the insurers aren't doing enough to ensure the coverage is competitively priced.

P&I clubs are mutual insurers that write liability coverage for their shipowner members. The clubs can require shipowners to pay supplemental premiums to cover unanticipated member losses from prior years.

The clubs say that the number of claims that fall within their retentions began rising slowly in 1986 and took a dramatic leap in 1989 and 1990, forcing clubs to make more calls on members. A moderate increase followed in 1991.

"You have heard many times that claims in P&I clubs have exploded," said Sven-Henrik Svensen, director at Assuranceforeningen Gard, a Norwegian P&I club.

One reason for the increase is inadequate training of crew members, he said. In addition, tightening reinsurance capacity has forced the clubs to retain more of their risks.

And, he added, the Oil Pollution Act of 1990,



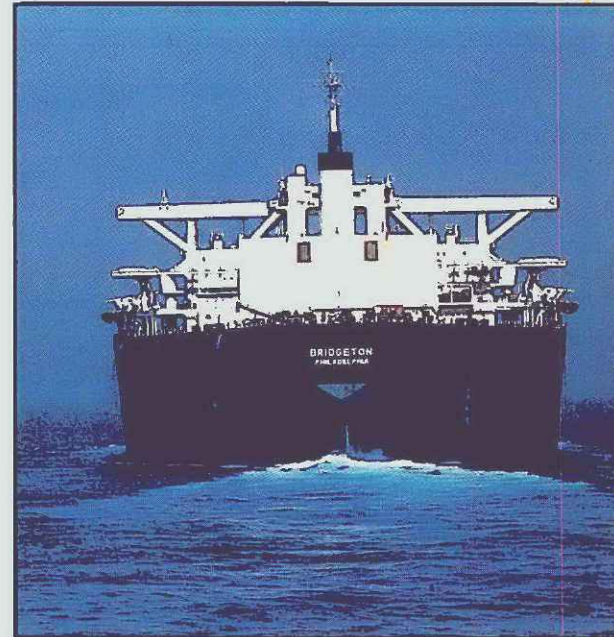
vention and claims-handling services, he adds.

Underwriters must be careful, though, that their efforts to drive out shipowners with poor loss experience do not penalize quality shipowners, a shipping executive cautions.

"Marine underwriters do have an important role to play in deciding who will survive in the shipowning business and how they carry out their business. They have two ways of doing this: by rate setting in its broadest sense, and by control of standards," said Hans Terje Anonsen, senior vp of Vesta Insurance Co. in Bergen, Norway.

Both shipowners and marine insurers are find-

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AP/Wide World Photo

an oil spill liability law, could cause claims to continue to rise.

Mr. Svensen participated in a panel discussion of the difficulties facing P&I clubs at the Houston Marine Insurance Seminar last week.

One concern for P&I clubs is a U.S. law that, among other things, expands shipowners' liability in the event of oil spills and calls for changes in tanker design (BI, Aug. 27, 1990).

"Underwriters are terribly concerned about OPA '90," said Mr. Svensen. The clubs fear "astronomical natural resource damage claims and consequential liabilities and the real risk of even smaller oil spills leading to substantial and unpredictable liabilities."

"We're in for a very long period of uncertainty," said Thomas J. McGowan, president of Shipowners Claims Bureau Inc. in New York, which manages the American P&I Club.

The act "may be an unenforceable statute," he suggested. "The Coast Guard is grappling with some of the problems now, so is the entire shipping industry."

"The only certainty is that it is going to cost shipowners and consequently the clubs," along with the American public, in terms of expenses

*Continued on page 64*

# 401(k) plans a hit even with small firms

By JERRY GEISEL

401(k) salary reduction plans, one of the most popular employer-provided benefit programs in the 1980s, continue to grow, a new survey shows.

Even though the economy continues to sputter, more employers are adding 401(k) plans to their benefit programs, the survey finds.

This year, 93% of 654 employers responding to a Buck Consultants Inc. survey said they offered a 401(k) plan, up from 91% last year and 72% in 1989. Just 36% of employers offered a 401(k) plan in 1984.

Smaller companies are responsible for much of 401(k) plan growth. For example, 90.4% of employers with fewer than 1,000

employees said they now offer a 401(k) plan, up from 87.2% in 1991.

Among larger employers, the prevalence of 401(k) plans crept up slightly: 95.6% of employers with more than 5,000 employees now offer a 401(k) plan, up from 94.3% in 1991; and 94.3% of employers with between 1,001 and 5,000 employees now offer a plan, up from 93.4% last year.

401(k) plans are now so widespread that "they have become part of the American benefit culture," said Frederick Rumack, director of tax and legal services in Buck's New York office.

Even in the midst of a recession, employers—many of which never offered a pension plan—are establishing 401(k) plans because they are very popular with employees and offer the company predict-

able benefit costs, Mr. Rumack said.

The continuing growth of 401(k) plans is detailed in Buck's new survey, "401(k) Plans—Past, Present and Future." The survey also examines a wide range of other 401(k) plan issues, including participation rates, matching features, loan provisions, investment options and plan administration.

According to the survey, 401(k) plan participation rates on average remained steady at 74% of eligible employees between 1991 and 1992. But, that rate is still significantly higher than it was a few years ago: In 1989, 66% of eligible employees on average participated in their company's 401(k) plan, up from 62% in 1984.

Employee participation in 401(k) plans

*Continued on page 41*

## Employers with a 401(k) plan

Despite the economy, 401(k) plans continued to grow. Smaller firms accounted for much of the growth.



GRAPHIC BY A. TRANCHITA

## Two more insurers sue NME

DALLAS—Two more insurance companies have filed suit accusing health care services giant National Medical Enterprises Inc. of billing them for millions of dollars in bogus psychiatric claims.

Aetna Life Insurance Co. in Hartford, Conn., and Metropolitan Life Insurance Co. of New York filed suit Sept. 14 in U.S. District Court in Dallas charging NME with insurance fraud. The insurers are seeking unspecified damages under the federal Racketeer Influenced and Corrupt Organizations act, which allows treble damages, plus litigation costs, Aetna says.

The insurers allege that Santa Monica, Calif.-based NME perpetrated "an elaborate scheme" to hospitalize patients—regardless of medical need—in its affiliated hospitals and to bill insurers for treatments it never provided. The complaint also charges that NME relied on illicit recruiting of patients through kickback schemes with referring physicians and public school guidance counselors.

Aetna and MetLife said they have paid more than \$500 million to NME's psychiatric hospitals since 1988.

The suit comes on the heels of a similar action filed by eight other insurance companies in July (BI, Aug. 3).

NME said in a statement that it will "contest this needless legal action vigorously."

—By Christine Woolsey

## Physicians plan

Continued from page 1

can prevent that meltdown," according to Howard Shapiro, director of public policy for the American College of Physicians in Washington.

Meanwhile, the Conservative Democratic Forum, a group of 57 House Democrats, unveiled a proposal that would, among other things, establish giant health care purchasing arrangements for small to medium-sized employers as well as individuals.

The bill, co-sponsored by 17 of the representatives, also calls for denying tax deductions for generous health care plans whose costs exceed certain levels.

Reforms included in the legislation "are the most powerful tool to make health care more affordable. This is the hottest idea around," said Rep. Jim Cooper, D-Tenn.,

who is chairman of the Conservative Democratic Forum.

"It is fundamental systematic reform," said Rep. Charles Stenholm, D-Texas.

Both of the new proposals come at a time when the health care reform debate in Congress has ground to a halt.

Several months ago, Democratic members of the House Ways and Means Committee made a much-ballyhooed effort to get reform legislation to the House floor by August (BI, June 22). That effort ended abruptly when the Democrats could not reach a consensus on a reform package.

And, with less than a month to go before the scheduled end of the 102nd Congress, action on any health care reform proposal is all but impossible.

But with 36 million people uninsured and health care costs continuing to soar, the congressional

drive to solve or reduce those problems will resume next year.

"House Democrats plan to continue to work to forge legislation that will ensure that all Americans can afford the quality health care that they expect and deserve," said House Majority Leader Richard Gephardt, D-Mo.

But with no proposal commanding a big block of support, groups like the American College of Physicians and the Conservative Democratic Forum are launching new proposals to try to break the current political stalemate.

The doctors' proposal is based on the play-or-pay approach, under which an employer either has to offer a health plan meeting federal standards or pay a new payroll tax to fund coverage for the uninsured.

The concept has been endorsed by a range of Democratic congressional leaders, including Senate Majority Leader George Mitchell, D-Maine, and House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill.

But the Bush administration has launched a blistering counterattack against play or pay, charging that it would be the first step toward a national health insurance system.

To bolster that argument, the administration released a study earlier this year that found that the Democrats' play-or-pay proposals would prompt companies to terminate their health plans, leaving tens of millions of workers to be covered by a public program. That is because employers would find it less expensive to pay a 7% to 9% payroll tax—the range of the tax called for in the Democrats' play-or-pay proposals—than to continue group health care coverage, according to the study by the Urban Institute, a Washington-based research organization.

With play or pay, "Millions of workers who now have employer-sponsored plans would be thrown into the public plan, losing both their freedom to choose the type of coverage they want to have and their access to private health insurance," Secretary of Labor Lynn Martin charged when the study was released (BI, Jan. 13).

The proposal by the American College of Physicians, a Philadelphia-based organization representing physicians who practice internal medicine and various subspecialties, is a direct response to that criticism.

It aims to ensure that premiums are equal to or less than the payroll tax. That would encourage employers that are not now offering health plans to begin doing so. It also is designed to discourage employers from terminating plans they now offer.

Making employer plans less expensive than the payroll tax "addresses a criticism of those 'play-or-pay' plans in which the premium cost to 'play' is so much higher than the tax to 'pay' that employers would terminate coverage and transfer employees to the public program—eventually leading to a single public system," the doctors' group says in the Sept. 15 issue of its journal, *Annals of Internal Medicine*.

To reduce employers' health care costs below a payroll tax of roughly 7% to 9%, the group proposes creating a new public plan that would:

- Cover any health care claim exceeding \$50,000.
- Offer coverage to employees who are at least 60 years old.
- Gradually offer benefits for retirees now covered by employer plans.

Shifting those claims from em-  
Continued on page 6



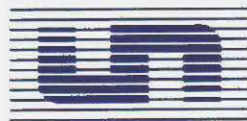
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## Health proposal

Continued from page 4

ployer plans to a new public plan could slash an employer's annual health care expenses 15% to 30%, said John Erb, a principal with A. Foster Higgins & Co. Inc. in New York.

Funding for the public plan, which would cover the uninsured, would come from employers choosing to pay the payroll tax, income-related premiums paid by beneficiaries, increased alcohol and cigarette taxes and general tax revenues.

No specifics are given for how much new tax revenue would be needed in order to finance the public plan.

Small business groups, which opposed earlier play-or-pay proposals, were quick to reject this one as well.

A play-or-pay approach would

hurt low-income workers because financially pressed small firms would either have to cut jobs or reduce other benefits to pay for the plan, charged the National Federation of Independent Business in Washington.

Among big businesses, the reaction was more favorable. Walter B. Maher, director of federal relations in the Washington office of Chrysler Corp., said the latest play-or-pay proposal would ensure that health care costs are distributed equitably throughout the economy.

Small employers in other industrialized countries pay for health insurance for workers, and there is no reason why small employers in the United States should escape that responsibility, according to Mr. Maher.

Breaking ranks with the AMA, the American College of Physicians called for limits on national health

care spending, which is expected to top \$800 billion this year.

Under its plan, a new national commission would recommend to Congress a health care budget for the nation. The commission, in consultation with state authorities, then would set a budget for each state based on its population and disease burden.

States would be required to establish a mechanism for employer- and public-sponsored plans to negotiate fees with physicians, hospitals and other providers. Uniform rates would apply under all plans within a state or a region of a state.

By contrast, Medicare and Medicaid currently do not pay the full tab for physician and hospital care, resulting in cost-shifting by providers to employer plans, Chrysler's Mr. Maher said.

Medicare and Medicaid would be replaced under the American Col-

lege of Physicians' proposal by new publicly sponsored insurance plans that would provide benefits identical to those in employer-sponsored plans.

Some business groups applauded the physician group for recommending cost controls.

"It is the first case of clear thinking by the provider community that I have seen in a long time. A segment of the medical community is recognizing that we can't continue to operate the health care system on a cost plus basis," said Mark Ugoretz, president of the ERISA Industry Committee, a Washington-based benefits lobbying group representing large companies.

The American College of Physicians' Mr. Shapiro said that unless health care costs are slowed, the country may move to a more radical delivery system, like a government-run and administered

program.

However, that argument has not persuaded the AMA, the nation's largest physician group. It still rejects global budgeting and cost controls as the "beginning of health care rationing," which will cause public suffering.

Other observers, like Stuart J. Brahs, vp-federal government relations in the Washington office of The Principal Financial Group, describe the American College of Physicians' proposal as "courageous."

But Mr. Brahs said there is not yet a strong groundswell of support in Congress for tough health care cost controls.

Meanwhile, under a proposal by the Conservative Democratic Forum, individuals and employers with fewer than 10,000 employees would be organized into giant purchasing arrangements, known as health plan purchasing cooperatives, in each state.

Employers with more than 10,000 employees could join the cooperatives, but they would not be required to do so.

These cooperatives would contract for health insurance with "accountable health plans," or plans that meet standards set by a new national board modeled after the Securities and Exchange Commission.

The national board would set the standard benefits package that would have to be offered by an accountable health plan. Purchasing cooperatives would then seek bids from these plans.

An employer could select an accountable health plan that was not the low bidder, but it would be penalized for doing so. The employer could only take the tax deduction it would have been entitled to with the cheaper plan, not a deduction based on its actual, higher costs.

Big self-funded employers could receive a full tax deduction for their health care costs if their plans are certified as accountable health plans and the costs of their plans do not exceed the cost of the least expensive accountable health plan in their region.

An individual, like a self-employed professional, could obtain coverage through a purchasing cooperative and receive a full tax deduction if the plan's cost does not exceed the least expensive plan in the region.

The purchasing cooperatives also would offer coverage to poor people. Premiums paid by individuals would depend on income, and coverage for the poor would be subsidized by the government.

Funds for the government share of the premium would be raised by limiting the employer tax deduction for health care coverage to the low bid for an accountable health plan and subjecting all wages to the Medicare Part A payroll tax. That 1.45% tax, paid by both employers and employees, now applies to the first \$130,000 of wages.

Some business groups last week said that they wanted to study the Democratic group's proposal in greater detail before commenting.

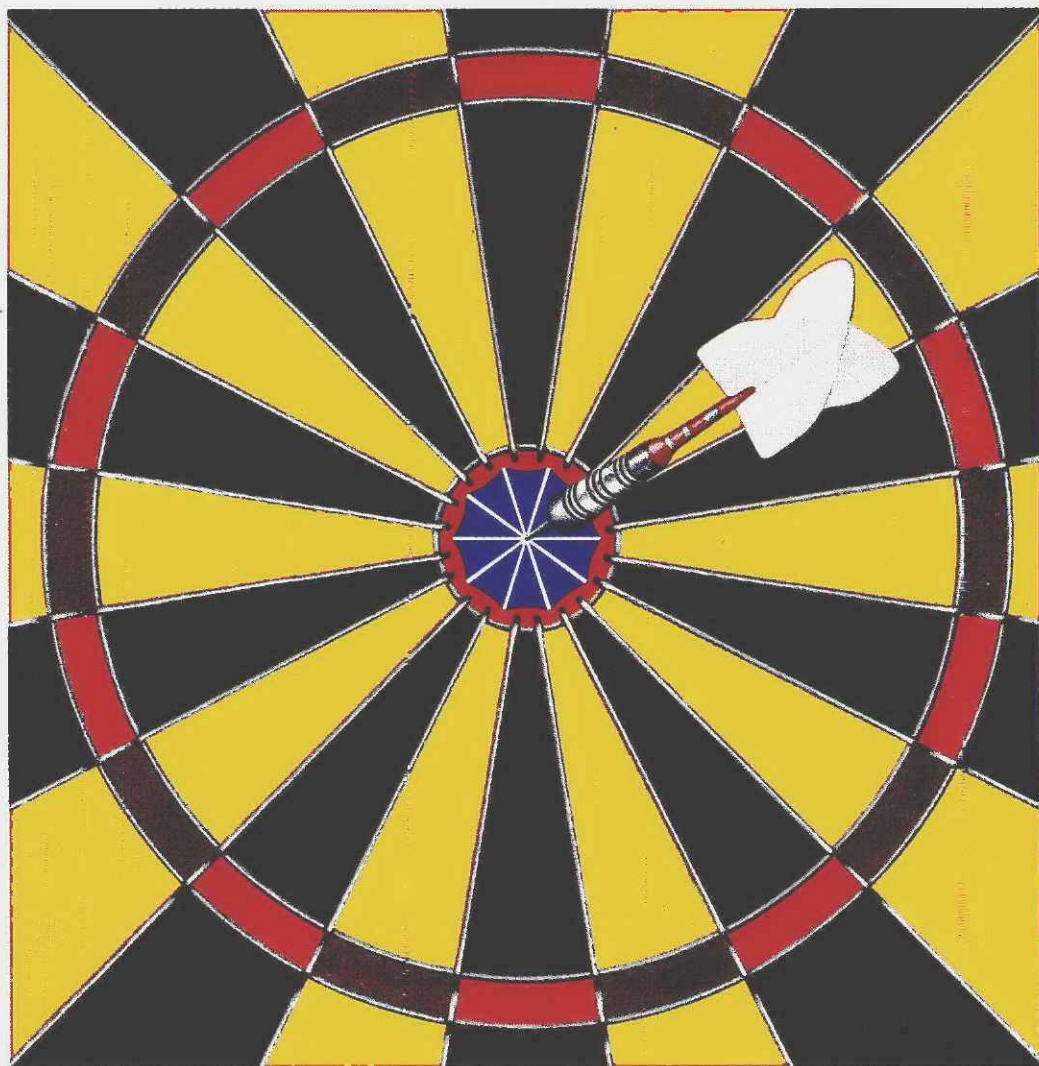
But some experts say that limiting employers' tax deductions would put some companies in a difficult position.

An employer that negotiates health benefits through collective bargaining could be put in a bind, noted Ellen Goldstein, director of health policy for the Assn. of Private Pension & Welfare Plans in Washington.

If a company offered a more expensive plan, it would not receive a full tax deduction. But if it offered a lower-cost plan, it could risk a strike by employees, she said. ■



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# Tort reform push not over

CLOSE, AS THE SAYING goes, only counts in horseshoes and hand grenades.

Along that line, it really is irrelevant that legislation to establish a uniform federal product liability law failed to win Senate consideration this month by only two votes (*BI*, Sept. 14).

But taking a broader, long-term view, the narrow margin of its defeat should encourage businesses to renew their lobbying efforts in Congress next year.

As federal product liability reform proponent Victor Schwartz correctly points out, support for product liability reform is growing slowly but steadily, which is directly opposite the path taken by other reform initiatives that have been opposed by the trial bar.

For example, congressional support for federal no-fault automobile liability insurance standards eroded steadily after an initial burst of enthusiasm in the early 1970s. By the late 1970s, congressional support for the no-fault concept had withered under a barrage of opposition from the plaintiffs' bar.

By contrast, congressional support for federal product liability reform legislation has increased incrementally since a bill was first introduced in 1981.

In the mid-1980s, only about 30 senators supported the legislation. In those days, support was so limited that getting a bill out of a committee at the tail-end of a congressional session was considered a major victory. But now, nearly three-fifths of U.S. senators say they are ready to consider a bill for a vote on the Senate floor.

Certainly, that is significant progress.

While manufacturers should be encouraged by the closeness of the vote, they cannot ease up on their lobbying efforts.

Indeed, they should redouble those efforts with the certain knowledge that the plaintiffs' bar—spurred, no doubt, by the close Senate floor vote to limit debate on the bill this month—will be pulling out all stops next year to kill the legislation.

And, all the old arguments against the legislation surely will be trotted out again: that the proposal is anti-consumer and pro-manufacturer. Of course,



the reality recognized by a growing number of senators is that the current legal system is, in fact, anti-consumer. Outrageous awards and an unbalanced tort liability system mean higher insurance costs, an expense that is passed on to all consumers.

And, the legislation hardly is a sellout to manufacturing interests. The bill guarantees that injured consumers would be able to receive full recovery for their economic damages if injured by products less than 25 years old. And, they would be able to receive some non-economic damages.

What the legislation would do is interject a small but important measure of fairness in the legal system. Among other things, the measure would place time limits on suits involving certain very old products, limit a defendant's liability for non-economic damages in multiple-defendant suits to its degree of fault and encourage alternative dispute resolution mechanisms, like arbitration.

These are modest but certainly needed reforms toward a fairer, more balanced product liability system. We hope for their speedy enactment during the 103rd Congress.

## Letters

### Cargo coverage should exclude general average

To the editor: Most cargo on ocean tankers and freighters is subject to an additional charge over and above freight and insurance due to a "general average" clause, which should be as dead as the dodo bird—but isn't!

An attempt 20 years ago to eliminate general averages resulted in the formation of the World Assn. for Elimination of General Averages, with myself as chairman. Despite strong efforts by WAFEOGA, the general average was not eliminated as of my retirement in 1978, and, apparently, nothing has been done since.

Now, though, I believe it can be abolished without the aid of any organization.

When a shipper signs a bill of lading,

he agrees to its general average clause, which provides that any claims will be settled using the York-Antwerp Rules. Initiated in 1877, these rules specified procedures to be used internationally. Several revisions have been made since then. The introduction to the 1974 revision states what all marine insurers are well aware of: "their application is entirely voluntary."

Although it is voluntary, cargo owners sign inclusionary bills of lading believing they have no alternative. That probably is currently true, but can be changed by the simple expedient of two actions:

- The cargo underwriters should amend their coverage by stipulating in their insurance policies that general average is not a covered risk. However, they would still pay for any loss or damage to cargo for any normal reasons, including jettisoning to save the ship, but would retain the right of subrogation against the vessel owners if such loss was the ship's fault.
- The cargo owner/shipper would, before signing, amend the bill of lading by deleting the general average clause or stipulating that the cargo shall not be subject to general average.

The result? General average is eliminated.

Lloyds' of London and a number of underwriters all have said they would insure cargo shipped under bills of lading with or without inclusion of the general average clause. In fact, the consensus seems to be to eliminate the clause because all it does is increase the number of claims. Without it, claims would only be submitted if the insured cargo is damaged, lost or jettisoned.

Although the greatest benefit will be to cargo owners and their underwriters, even shipowners would be better off. They would not have to wait interminably for settlement and allocation of monies by the general average adjuster. Some claims take years to settle; one of ours took seven. As a particular average claim, payment would be made much sooner.

If any reader has reason to disagree with this proposal, tell me why. If not, readers should take the above actions and do shipowners and their underwriters a favor.

**James O. Moore**  
Moore Financial Services Agency  
Smithtown, N.Y.  
Letters continued on page 27

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## For the Record

### L.A. riot losses drive insurer into insolvency

LOS ANGELES—Losses from the Los Angeles riots have claimed their first—and maybe last—insurance company victim.

On Sept. 9, Orange County Superior Court Judge William Rylaarsdam declared Western International Insurance Co.—a small insurance company based in Huntington Beach—insolvent and ordered it liquidated.

California regulators sought the liquidation order after an audit they began when an unusually high number of consumer complaints were filed over the company's handling of riot claims uncovered a shortfall in surplus (*BI*, July 27).

A California Insurance Depart-

ment examination found the company had assets of \$19.6 million and liabilities of \$22.1 million, including riot-related claims, resulting in a surplus deficiency of about \$2.4 million. State law requires unimpaired paid-in capital of at least \$750,000.

Western reported year-end policyholder surpluses of \$5.2 million in 1991 and \$6 million in 1990.

Western's assets will be sold, and proceeds distributed to claimants and creditors, the insurance department said.

The insurer owed \$22.4 million gross for 232 riot-related claims as of July 26, according to the order placing the company in conservation on Aug. 10.

Further depleting its reserves was \$2.35 million recently paid to settle

charges brought by a former executive.

Western began operations in 1984 but had been operating under the current management since 1987. That was not enough time to secure an A.M. Best Co. letter rating. The company did rate a six, or above average, in Best's 1992 Financial Performance Index.

Western was profitable from 1987 to 1990, though it reported a net loss of \$263,000 in 1991 due to higher expenses, according to Best.

The company wrote \$10.7 million in net premiums in 1991, down slightly from \$11.3 million the previous year.

As of June 30, the insurance company had more than 8,000 policyholders.

"We don't believe that there are other companies that were similarly affected by the Los Angeles riots," a California Insurance Department spokesman said.

### IVANS electronic network to now feature AISG data

GREENWICH, Conn.—American Insurance Services Group Inc. has linked up with Insurance Value Added Network Services to make access to AISG's industrywide claims and underwriting data bases more efficient and less expensive.

The agreement will encourage more subscribers to the two data bases—the Index System and the Automated Property Loss Underwriting System, or A-Plus—to submit data electronically, said Gerry Murphy, AISG's vp of claims and underwriting operations. This would cut data-entry costs and speed the turnaround time for reports.

The Index System equips claims personnel with essential data to research claims histories, identify claims patterns and detect possibly fraudulent claims. The data base consists of some 42 million bodily

injury claim reports from 1,000 insurers, or 95% of the industry in premium volume. It also includes information on bodily injury claims reported by 1,500 self-insured companies and organizations.

The A-Plus data base includes property and liability loss information for the exclusive use of personal and commercial lines underwriters. It includes data from 319 companies representing 60% of the industry as well as 21 FAIR plans.

"The addition of AISG means we'll be able to pass on our network savings to even more in the insurance industry," IVANS President Robert Y. Barham said of the agreement.

"We hope to help AISG educate subscribers about its services and efficiencies associated with transmitting data electronically," he said.

IVANS is a shared, not-for-profit organization providing electronic communications services to the insurance industry and related organizations.

### Settlement reached in Christo accident

LOS ANGELES—An undisclosed settlement was reached Sept. 3 between lawyers for environmental artist Christo and a California man whose wife was killed last October after being struck by a giant umbrella that was part of an outdoor art project.

The accident prompted early closure of the \$26 million exhibit, which consisted of 1,760 yellow umbrellas planted along California's Tejon Pass north of Los Angeles (*BI*, Nov. 4, 1991).

The woman, Lori Keevil-Mathews of Camarillo, was struck and killed when one of the 20-foot umbrellas, weighing almost 500 pounds, broke loose in high winds while she was viewing the project.

No suit was ever filed in the incident, and under terms of the settlement, none ever will be, according to Darold D. Pieper, a partner with Los Angeles-based Richards, Watson & Gershon, who represented Ms. Mathews' husband, Michael.

The settlement also relieves from liability Kern County, which previously rejected a claim filed against it on behalf of Mr. Mathews and his stepdaughter. At the time, the county said a hold-harmless agreement between the entity and Christo shielded it from liability even though the project had been constructed adjacent to a county road.

The project was covered under a comprehensive general liability policy underwritten by St. Paul Fire & Marine Insurance Co. with limits of \$1 million per occurrence and \$2 million aggregate.

### Managers to buy TPA from CIGNA subsidiary

The management of International Benefit Services Corp., a Fort Worth, Texas-based third party administrator, has reached an agreement to acquire the firm from Life Insurance Co. of North America, a CIGNA Corp. unit.

Ownership of the company will transfer by the end of this month to the four top managers, all of whom have been with IBS since it was formed seven years ago, according to Diane Drennan Griffin, senior vp-human resources and quality/compliance. IBS provides insurance services to professional associations, trade organizations and employer groups.

The firm will continue to serve as an independent TPA to CIGNA's employee benefit and special marketing divisions.

The company's 1991 gross revenues were \$7 million.



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*Christine LaSala, Executive VP and Deputy Manager of J&H New York, on serving mid-sized companies:*

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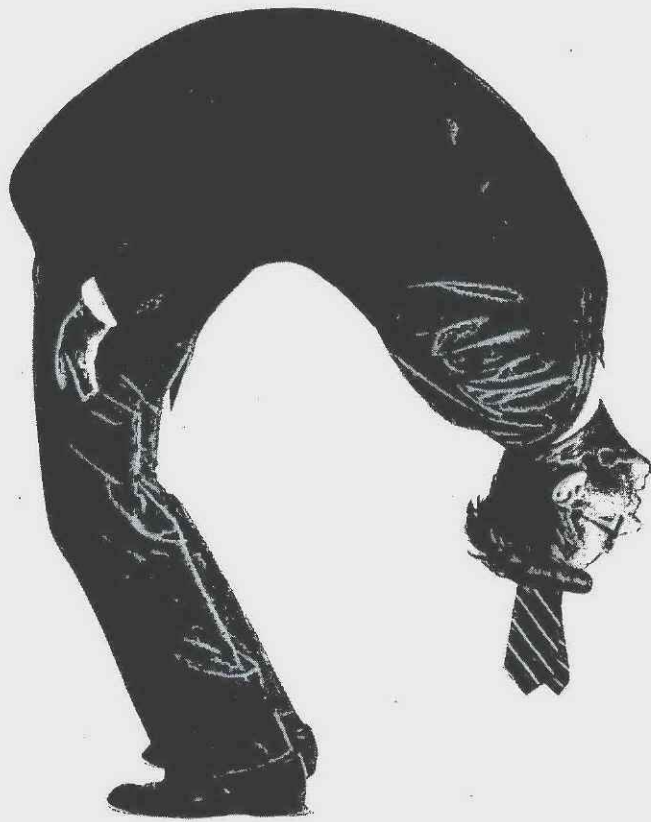
Big companies have staff specialists to deal with such things. Mid-sized businesses usually don't.

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## INTERNATIONAL

## Nordic insurers hit more turbulence

By MARIA KIELMAS

LONDON—The Scandinavian insurance crisis is continuing to unfold as Denmark's Hafnia Holdings A/S puts its foreign operating subsidiaries on the selling block.

Hafnia also has become embroiled in a new crisis concerning an allegedly illegal investment by the Copenhagen County Council in the insurer's July stock offering (*BI*, Aug. 3; July 13). The CCC, in turn, alleges that Hafnia in August suspended

payments to creditors on false grounds and deliberately misled potential investors in its prospectus for the offering (*BI*, Aug. 24).

In other recent developments in the turbulent Scandinavian market:

- Norway's UNI Storebrand A/S announced a reorganization aimed at boosting its solvency ratios and hinted at possible future sales of operating subsidiaries.

Insurance market analysts believe, however, that the Norwegian insurer's only salvation is to be na-

tionalized by the Norwegian government.

- Sweden's Skandia Holding A.B. and Trygg Hansa SPP Holding A.B. are coming under increasing fire from the country's banks, which allege the insurers are not taking full responsibility for the collapse of credit insurer Svenska Kreditforsakringaktiebolaget and its affiliate International Credit Insurance (*BI*, Sept. 14).

Hafnia's decision to sell its subsidiaries was announced at a Sept. 10

meeting of creditors by Holger Lavesen, chairman of both Hafnia Holdings, which suspended debt payments last month and retained Hafnia's liabilities, and of Hafnia Holding of 1992 A/S, a new company formed in mid-August that now holds Hafnia's assets.

Mr. Lavesen told creditors: "The siege to which Hafnia has previously subjected Baltica, and the siege to which UNI Storebrand and Hafnia have subjected Skandia, have both been extremely costly for the two

besieging companies. . . The Hafnia Group is in serious crisis. Untraditional measures may be required to overcome this crisis."

The "seige" refers to Hafnia's attempt to take over Baltica Holdings A/S and an attempt by Hafnia and UNI Storebrand to buy Skandia.

At the meeting, Mr. Lavesen and Managing Director Olav Grue noted that when Hafnia Holdings suspended payments Aug. 18, the company had total assets of 5.9 billion

*Continued on next page*

## German buyers face property rate hikes

By DON LEWIS KIRK

BONN, Germany—German corporations should brace themselves for a move to hike rates as commercial property losses mount.

Following a "catastrophic" year in 1991, German reinsurers say nothing short of a 50% increase in rates for commercial property and business interruption coverage could heal an ailing property insurance industry.

In a rare concerted effort, German reinsurers are applying joint pressure on primary insurers to raise rates.

Egbert Willam, a member of the board of management at Cologne Reinsurance Co., says he expects property insurance rates to increase substantially when policies are renewed.

"Industrial fire and business interruptions insurers have been in the red for years," Mr. Willam said. "With a loss ratio over 128%, there is no recourse but to put on pressure. We're offering incentives to direct insurers that adjust their rates, and we're not alone."

In the last five years, German commercial property insurers have suffered substantial losses. Last year alone, the insurers reported commercial property losses of 4.3 billion deutsche marks (\$2.84 billion at year-end 1991 exchange rates), compared with premiums of 3.4 billion deutsche marks (\$2.25 billion).

German brokerage Jauch & Huebener KGaA estimates that administrative costs of between 25% to 30% of premium translated into underwriting losses of at least 2 billion deutsche marks (\$1.32 billion).

German property insurers say they were particularly hard hit by large-scale fires last year. The majority of their losses came from 346 fires that each caused at least 1 million deutsche marks (\$661 million) of insured damage. Arson was the cause about 25% of time.

"This year is not much better," Mr. Willam said. "In 1992, insurers have already seen losses of 1 billion to 2 billion deutsche marks" (\$670.7 million to \$1.34 billion at current exchange rates).

The crisis in commercial property insurance is largely due to low rates, insurers claim. Germany property insurance rates are among the lowest in Europe.

"Competition in this sector has been ruinous," explained Edibert Muller, a member of the board of management at Agrippina Insurance Co. in Cologne. "Everyone's known for years that rates were too low, but no one was willing to do anything about it."

As a result of huge losses, many primary property insurers in Germany have stopped writing or reduced their capacity, Mr. Muller

*Continued on page 16*

## Risks of covering a war

Insurance for journalists intact

By MARIA KIELMAS

LONDON—Personal accident and term life insurance for journalists and other media employees covering the war in the former Yugoslavia remains available even as the conflict escalates, insurers say.

However, risk and benefit managers at media companies, especially TV networks, are concerned that as the complexion of the conflict changes with the deployment of international troops, insurance costs may increase and war exclusions may limit coverage under existing policies.

While no one would indicate exactly how much insurance rates rose when allied troops were deployed in the Gulf War, for example, one observer suggested they initially tripled.

So far, 31 journalists have been killed in the fighting in Yugoslavia, more than were killed in the entire Vietnam War.

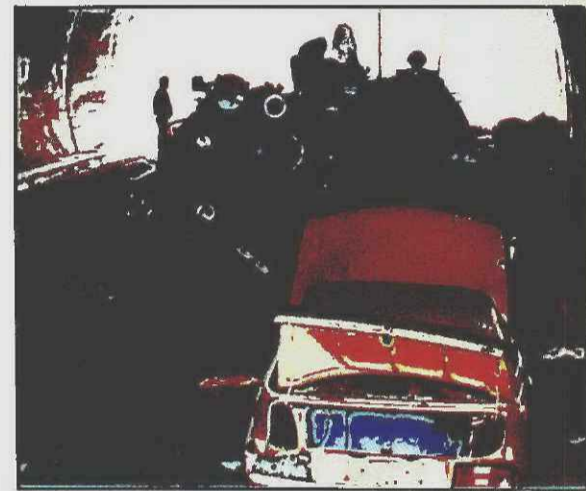
Suggestions already being made privately by some insurers and employee benefits specialists that it is impossible for media companies to buy coverage for employees working in Bosnia-Herzegovina are "nonsense," says John Van Den Bosch, an underwriter at Cassidy Davis Underwriting Ltd., manager of Lloyd's syndicate 582.

"At the moment I will do it. In three months, if we have a different theater of war, we will still have business. It's a question of how to write different terms."

Mr. Van Den Bosch says that because few people go to the former Yugoslavia for a long period of time, the coverage may be tailored: Those entering the war zone could be covered by one-month personal accident and term life policies. Those who visit states like Slovenia or Macedonia, where there is no fighting, could still be covered by one-year policies.

Unlike other policies, the coverage written by Cassidy Davis, which specializes in war risks, does not make a distinction among particular types of war risks, like a civil war or a war involving one or more of the five major powers that are permanent members of the U.N. Security Council: the United States, the United Kingdom, France, Russia and China.

"You are going into a gray zone of definition," says Mr. Van Den Bosch, explaining that the underwriter will also sell coverage for "passive war," where an individual



AP/Wide World Photo

Bosnian forces have stationed two T-55 tanks inside a tunnel near the Bosnian capital of Sarajevo.

like a soldier or a journalist is not actively involved in the war.

In contrast to Lloyd's underwriters, some insurers are not willing to write short-term coverage for visitors to the former Yugoslavian states.

Although Norwich Union Insurance Co. had written large amounts of term life coverage for those covering the Gulf War, it will not do so for Yugoslavia, according to a spokesman. "The administrative costs are too great to set up the facility for such a short period."

Meanwhile, the nature of the conflict and, hence, some insurers' definition of war risk coverage, could change if deployed troops from additional nations are attacked and forced to defend themselves, risk and benefit managers fear. Some say this situation could trigger clauses in contracts that contain exclusions for "war in Europe" and "war between the five major powers."

An insurance manager from a British television network noted: "At the moment we have not changed our benefit levels. The cover has been in place since July last year and has been renewed once. It is similar to the coverage we had for the Gulf War."

The network purchases personal accident and travel

*Continued on page 18*

## Netherlands' ING eyes buyout of Belgian bank

## GLOBAL BRIEFS

THE HAGUE, Netherlands—Internationale Nederlands Groep, a Dutch insurance and banking conglomerate, is considering launching a bid for Belgium's second largest bank, Banque Bruxelles Lambert.

ING was formed in 1991 by the merger of the Netherlands' largest insurer, Nationale-Nederlanden NV, with the country's third-largest bank, NMB Post-bank.

The proposed takeover by ING of Belgium's BBL is expected to go ahead, insurance analysts say, but the Belgians may push for a price higher than the 3,600 Belgian francs (\$117) per share that ING is currently considering offering.

Tom Bennet, an analyst at Paribas Capital Markets in London, says that although he be-

lieves the deal will go ahead, the banking and insurance combination is already proving expensive for ING. ING's expenses on the insurance side are rising at 12% annually while profits are flat, he says.

ING already holds 10% of BBL and has said it intends to acquire a further 6.7% being offered by other shareholders. And, ING says it intends to make an offer in mid-October for all outstanding BBL shares.

Overall, the financial services group says it would be willing to spend a maximum of 3.2 billion Dutch guilders (\$1.91 billion) for BBL.

ING says that after the take-

over, BBL will retain its Belgian identity and corporate culture while acting as part of the ING group.

As well, BBL has indicated that it is in favor of an alliance with the Dutch financial services group.

However, opposition to the offer is expected to come from the Groupe Bruxelles Lambert, which directly and indirectly controls some 24% of BBL.

Groupe Bruxelles Lambert's chairman, Albert Frere, said after the ING announcement that the price the Dutch insurer would offer seemed unsatisfactory.

Yet analysts believe Mr. Frere will eventually agree to the sale, especially if the price is increased.

—Maria Kielmas

## Pohjola downgraded

LONDON—Standard & Poor's Corp. has lowered the claims-paying ability rating of Pohjola Insurance Co. Ltd. to A from AA— in the latest downgrading of a Nordic insurance company.

S&P says the Finnish insurer's rating changes "reflect mid-1992 operating losses in excess of S&P's expectations, an unexpectedly sharp third-quarter decline in asset values following Finland's decision to cut the markka free from the European Exchange Rate mechanism, and Finland's ongoing economic weakness."

## Sweden's LF group

STOCKHOLM, Sweden—Lansforsakringsbolagen, a group

of Swedish mutual insurance companies, has concentrated its reinsurance activities into subsidiary Stockholm Reinsurance Co. Ltd. after the reorganization of the reinsurer's parent company, Lansforsakringsbolagens A.B.

The reinsurance departments of LFAB and another subsidiary, AGRIA Insurance Co. Ltd., have been integrated into Stockholm Re.

A new Stockholm Re division, AGRIA Inter, will handle AGRIA's direct insurance operation, which will continue through its subsidiary organization, International Dyreforsikring A/S in Denmark and through AGRIA Paardenverzekering in the Netherlands. Stockholm Re Bermuda will not be involved in the reorganization. ■

## Turbulent market

*Continued from page 14*  
market value," he said.

In addition, the holding company is transferring some 360 million Norwegian kroner (\$61.4 million) to its life insurance subsidiary, UNI Storebrand Livsforsikring A.S., to boost its solvency ratio to 8% as required by Norwegian regulations.

Mr. Eskeland confirmed that UNI Storebrand New differed with the state insurance regulator, Kredittsynet, over consolidation of the company's stake in Skandia Life, acquired through UNI Storebrand's overall 28.3% stake in Skandia Holding. Kredittsynet is pressing for a consolidation of the investment, he said, but this would decrease the solvency ratio of the life unit. But the company will follow the regulator's instructions.

An official from Kredittsynet said UNI Storebrand made such a consolidation in the 1991 accounts, but not in the half-year 1992 account. He said the Skandia stake amounted to 1% of the life company's portfolio of shares and bonds.

The new holding company has a net equity after consolidation of 4 billion Norwegian kroner (\$672.4 million at current exchange rates). The debts of the old holding company are about the same, he says.

Mr. Eskeland says discussions are underway with creditors of the old holding company on how they may recoup some of their losses, either through a portion of the income generated by UNI Storebrand's operating subsidiaries or through debt-to-equity deals with the new holding company. He denied that the aim was to sell off some units.

"We don't expect to sell any busi-

ness except something on the outside. We have a small stockbroker and a factoring company," he said.

UNI Storebrand New has split its international operations in two. Marine and oil insurance will be spun off into an as-yet-unnamed fourth subsidiary, leaving the international reinsurance operations separate. "The operations will improve if we separate them," said Mr. Eskeland, denying that such a reorganization was a prelude to a sale.

The Kredittsynet official said that UNI Storebrand New will receive liquidity support from the Norwegian central bank if and when needed, but that the company eventually will need to find capital on the international markets.

Insurance analysts say that the Norwegian authorities should divest themselves of any such notion, because the international markets

have no confidence in the insurer after the past year of chaos.

The only way for the company and its operational units to find new capital would be if the Norwegian government strong-armed Norwegian industry to inject capital in the insurer, says Hoare Govett's Mr. Wheelhouse. If this does not work, he says, the only alternative is a nationalization.

Also swept up in the Scandinavian turmoil, Skandia and Trygg Hansa have come under fierce criticism from Swedish banks for the way they have handled the collapse of the two credit insurers, Svenska Kredit and International Credit.

A Sept. 11 meeting between banks and insurers affected by the collapse was a "stormy" affair, spokesmen from Svenska Kredit and Skandia confirmed. The following day, the Swedish press quoted unnamed

bank executives who claimed that Skandia and Trygg Hansa were shirking their responsibilities regarding the credit insurers.

Skandia's Mr. Bergenstjerna rejects this criticism, saying that Skandia has a responsibility to its shareholders. Despite the insurers' stakes in Svenska Kredit, it is a separate company and not regarded as part of Skandia's balance sheet. And Skandia cannot justify to its shareholders bringing Svenska Kredit onto its books, he said.

Mr. Bergenstjerna also rebutted an opinion made by a London insurance analyst earlier this month that Skandia had lost more than its stated 450 million krona (\$88.2 million) in the credit insurer's collapse.

He stressed that Skandia is not responsible for the collapse of Svenska Kredit and International Credit. "I don't know of anyone who could have predicted this two years ago," he said. The insurers' collapse was the result of the availability of unlimited credit from banks and the real estate boom that erupted in the mid-1980s and collapsed last year, leaving the banks with bad loans and Svenska Kredit, which insured them, with heavy losses, Mr. Bergenstjerna said.

Insurance analysts say that Skandia's sensitivity about the collapse of Svenska Kredit may in part be due to the event almost coinciding with the imminent public offering of shares in its North America subsidiary, Skandia America (see story, page 1).

## German rates

*Continued from page 13*

said. "The remainder will have to deal with increased pressure from reinsurers, who by their own report have carried more than 85% of the losses.

"Insurers just aren't as flexible, ready, or even able to take on risk for the current premium rates," he said. "At the moment, I don't think major insurers will completely reject most risks, but you can be sure when the policies are renegotiated, companies are going to think twice about taking on heavy risk."

Brokers claim strict conditions already apply to certain risks. For example, paper and wood mills now must provide proof of extensive fire prevention measures.

Peter Dettwiler, head of foreign operations in Germany for Winterthur Swiss Insurance Co., agrees that insurers must take action.

"After a phase of careful risk selection, it is now a matter of increasing prices."

To help hike rates, German primary insurance and reinsurers have introduced a system of self-regulation. For the last four years, rates for high-risk accounts have been determined largely by a consortium of primary insurers and reinsurers called Konsortialkommission, or Koko.

Particular scrutiny is given to "highest-risk" policies that cover insured values of more than 1 billion deutsche marks (\$670.7 million).

In each case, Koko recommends a rate it believes will be sufficient to cover the risk. The primary insurer is expected to negotiate a rate with the policyholder using that recommendation.

"If that doesn't happen, the reinsurer denies the obligatory and facultative reinsurance coverage," said Cologne Re's Mr. Willam.

Cologne Re says it is interested in seeing insurers of smaller risks work with Koko. Cologne Re recently applied its own pressure by awarding 25% commissions to insurers that work with Koko, while others receive only a 17% commission.

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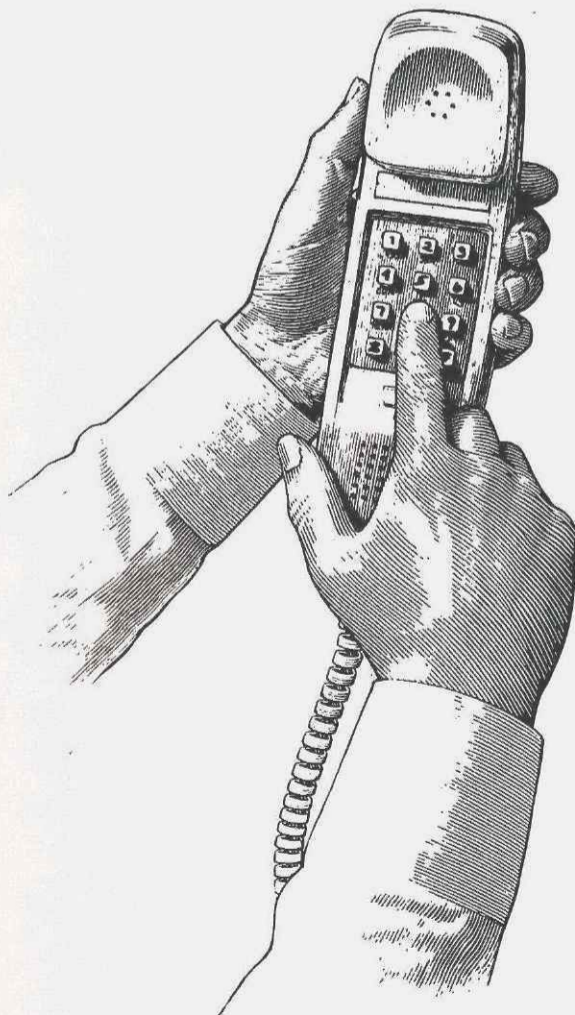
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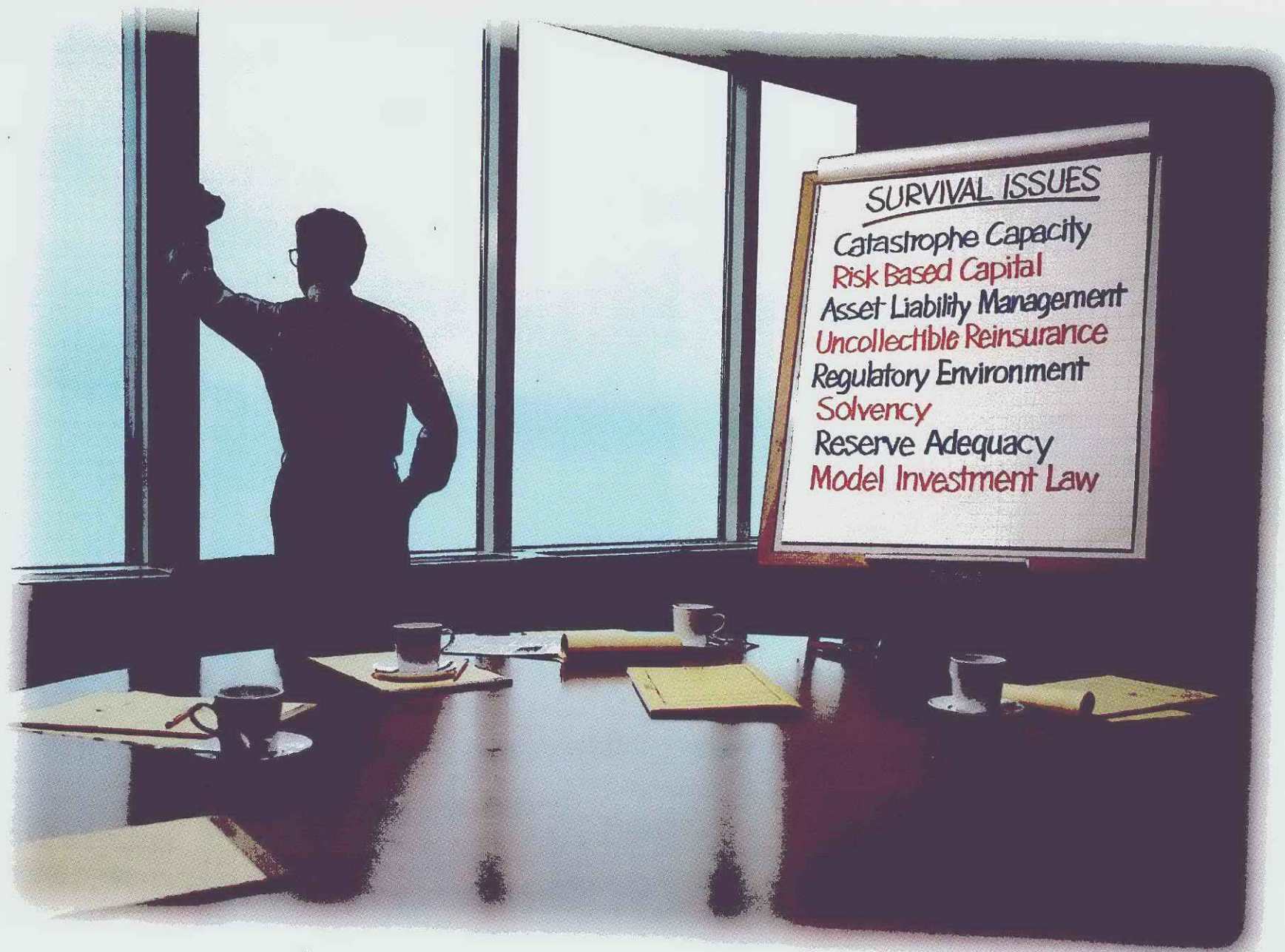
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## War risks

*Continued from page 13*  
 accident coverage for employees outside the United Kingdom. "It does not cover staff in their country of domicile," she explained. This domicile restriction also applies to any local national assisting the foreign network as a translator, driver or guide.

Freelance employees working for the network, assuming they are not local nationals, are included under the company's coverage, the insurance manager said.

Insurers have reacted commendably so far to casualties of the fighting, the buyer says. "When two members of our staff were injured recently, the insurers arranged an air ambulance to repatriate them immediately."

However, she noted that the situation could change if the Western powers become involved, as they did in the Gulf War.

"The insurers at Lloyds threw in their stalls and gave us a 30-day cancellation clause on all policies. It happened to everyone" in the TV news business, she said. "We were

able to purchase insurance again, but at a very high price. We were totally in the hands of our insurers."

One insurance executive speculated that the reason the British TV network received a 30-day cancellation notice when the Gulf War broke out was because the cover might have had a large self-insured retention with the rest being stop-loss coverage, which is not typical under group life insurance.

Katharine Watson, an insurance specialist at Towers Perrin, said that her experience during the Gulf War was that if a group life policy was

written that did not include a war exclusion, that coverage continued even after hostilities broke out. Nevertheless, she said, some insurers reserve the right to include a war exclusion.

The involvement of foreign armed forces in the Yugoslav conflict, albeit under a U.N. flag, is becoming a complicated area, insurers say. No one is certain how the situation will evolve with respect to the role of troops from the "Big Five" countries.

A contingent of French troops is already deployed in aid distribution

in Bosnia under U.N. commanders. Two French soldiers were killed and three injured on Sept. 8.

So far, there has been no direct U.S. government offer of troop deployment for humanitarian purposes, a State Department spokesman in Washington confirmed. He reiterated a Sept. 4 statement by Acting Secretary of State Lawrence S. Eagleburger that stressed that the United States must proceed cautiously.

This stance is quite different from that taken in mid-August by British Prime Minister John Major. A spokesman confirmed that Mr. Major has made an offer to the United Nations for the deployment of 1,800 troops under the U.N. flag to help distribute humanitarian aid.

The U.N. Security Council voted Sept. 14 to enlarge the mandate and strength of the United Nations Protection Force in Bosnia and Herzegovina. The UNPF will support humanitarian relief efforts, provide necessary protection and, under the peace-keeping rules of engagement, use self-defense as necessary.

Cassidy Davis' Mr. Van Den Bosch noted that most personal accident policies do not have a cancellation clause. If no war exclusion was negotiated in the original policy, then underwriters could not cancel the policy if war breaks out, he said.

Mr. Van Den Bosch's syndicate will stand by what it has agreed to cover. "If we had agreed to a good rate before (the conflict) got worse, we will stick to it," he said. ■

## Insurers expect low embargo exposure

LONDON—The United Nations embargo on Serbia and Montenegro, passed on June 4, is not expected to generate big losses for political risk insurers, a brokerage executive says.

"If one had an export contract (with Serbia and Montenegro), this would be covered under a contract-frustration policy. But Yugoslavia has been slithering down the slippery slope for many years," says Paul Davidson, executive director of political and financial risks at Willis Faber & Dumas Ltd. in London.

Referring to the economic crisis enveloping the country long before the ethnic war erupted, Mr. Davidson says, "Yugoslavia has been out of the contract risk market, because you couldn't place it."

Some confusion is arising from the instructions regarding insurance and reinsurance given by governments following their adoption of the U.N. embargo, insurers say.

For example, under the instruction published by the United Kingdom Department of Trade and Industry, which regulates the U.K. insurance market, the embargo notice stipulates that the prohibition applies to "any contract of insurance, other than reinsurance, upon aircraft of Serbia and Montenegro, or upon machinery, tackle, furniture or equipment of such an aircraft."

Insurers say this is very confusing, because 99% of aviation premiums from those countries are for reinsurance contracts.


Under the U.N. embargo, no person shall "make payment in full or partial settlement of any claim under a contract of insurance... unless the claim is in respect of an incident occurring before the coming into force of this order."

It continues: "No person shall effect any new contract of insurance or agree to any variation or extension of any contract of insurance, to which this article applies."

—By Maria Kielmas

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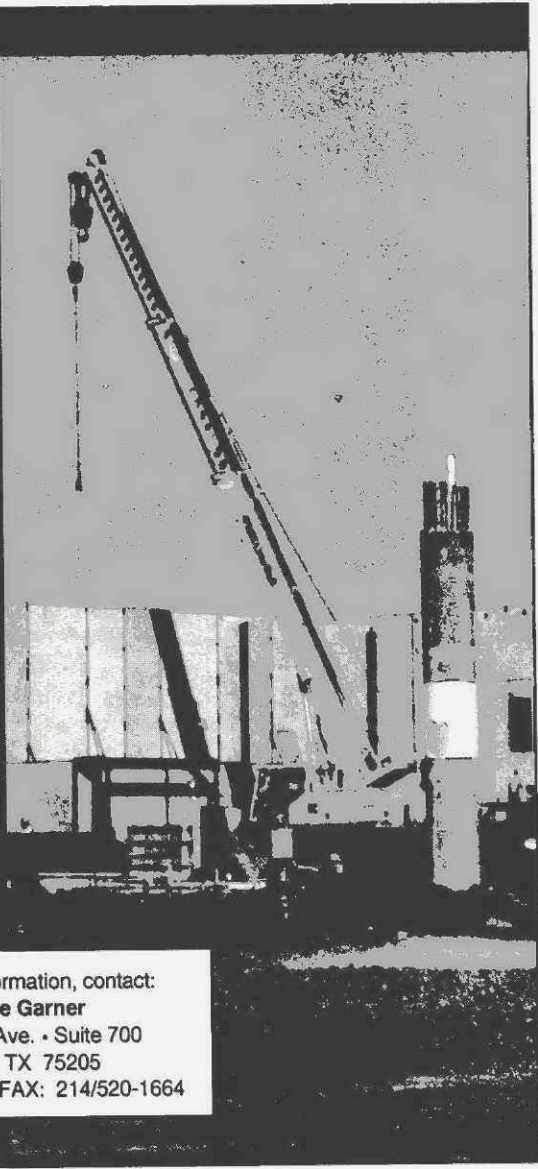
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**Florida ruling**

*Continued from page 2*  
 the pollution exclusion does not bar coverage for hazardous waste cleanups (BI, July 2, 1990; July 3, 1989).

The supreme courts in four other states—Ohio (see story, page 2), North Carolina, Massachusetts and New York—have ruled that the clause excludes coverage for all pollution except where the discharge is "sudden" in a temporal sense.

The issue also is addressed in a case now pending before the Illinois Supreme Court.

In the Florida case, the high court held that because the pollution exclusion is ambiguous, it must be construed in favor of policyholders.

The policyholders in the case, automobile dealerships Dimmitt Chevrolet and Dimmitt Cadillac of Clearwater, Fla., had appealed a 1990 U.S. District Court ruling favoring their insurer, Southeastern Fidelity Insurance Co.

The dealerships sought coverage from Southeastern, which merged into Indianapolis-based Windsor Insurance Co. in 1989, after they were identified as potentially responsible parties for pollution at an oil recycling plant they used.

Coverage in the case will now be decided by the 11th U.S. Circuit Court of Appeals in Atlanta, which had referred the pollution exclusion issue to the state supreme court.

The Florida Supreme Court ruling "states that just because the pollution was gradual doesn't mean the exclusion applies. The key question was whether it was intentional," said policyholder attorney Joseph W. Dorn of Kilpatrick & Cody in Washington.

"The decision is especially good for Florida policyholders because they now have a definitive (interpretation from) the Florida Supreme Court," Mr. Dorn added.

Tom Bick, the policyholder's lead counsel, agreed.

"The ruling is a significant victory for policyholders because many polluting events occur

gradually over many years and cannot be considered abrupt discharges," said Mr. Bick, who also is with Kilpatrick & Cody in Washington.

The insurer's attorney, Robert E. Austin Jr. of Austin & Pepperman in Leesburg, Fla., would not comment on the impact of the decision. He is expected to seek a rehearing next week.

Another attorney who represents insurers in similar pollution coverage cases says that the Florida Supreme Court's analysis is flawed.

Because "only selective bits and pieces of the drafting history was included" in its analysis, the court "didn't get a real feel for what happened," contends Bob Lawrence of Steptoe & Johnson in Washington.

The case stems from a July 1987 notice the U.S. Environmental Protection Agency issued against Dimmitt asserting that it was potentially responsible for pollution at an oil recycling plant in Hillsborough County, Fla. Dimmitt sold its used crankcase oil to the operator of the site, Peak Oil Co., between 1974 and 1979.

In 1983, the EPA determined that the oil recycling business that Peak had operated since 1954 had resulted in extensive soil and groundwater pollution.

It will cost approximately \$10 million to clean up the site, which is listed on the National Priority List created under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, better known as the Superfund act, according to Mr. Dorn.

In addition to Dimmitt, 170 other potentially responsible parties were cited by the EPA, he pointed out.

After Dimmitt filed a claim seeking coverage from its insurer, Southeastern Fidelity sued Dimmitt in U.S. District Court in Tampa. The federal court granted the insurer's motion for summary judgment.

Dimmitt appealed to the 11th Circuit, which suspended hearings until the Florida Supreme Court ruled on the pollution exclusion.

The Florida Supreme Court ruled 4-3 that the term "sudden and accidental" is ambiguous as a matter of law "given the differing dictionary definitions of the word 'sudden,' the divergence among the jurisdictions considering the issue and the drafting history of the pollution exclusion clause."

The drafting history of the clause "leads to the inescapable conclusion that the insurance industry was attempting to exclude from coverage those polluters who committed their acts intentionally," the court said.

"In light of the foregoing, we agree with the views expressed by the supreme courts of Wisconsin, Colorado and Georgia. So long as the environmental contamination at issue was unexpected and unintentional on the part of the insured, coverage under the comprehensive general liability insurance policy is not precluded," the court concluded.

If Southeastern's motion for rehearing is denied, coverage hearings will resume in the federal appellate court.

Among the issues that will be resolved at the appellate court level are what policy years would apply. Dimmitt asserts that policies issued between 1972 and 1980 should respond, while Southeastern maintains that only those policies covering 1977 through 1980 are applicable.

But Mr. Lawrence, who is not involved in this case, believes that the appellate court will not likely award coverage even though the pollution exclusion is considered ambiguous.

"The focus of the pollution exclusion is on the discharge, dispersal, release or escape of pollution into the atmosphere," he explained. "If someone unexpectedly or unintentionally disperses pollution, then there's coverage. But, in Dimmitt, because the recycler dumped this stuff into an unlined pit, it's clear that the release was expected or intended."

*Dimmitt Chevrolet Inc. et al. vs. Southeastern Fidelity Insurance Co., No. 78-293, slip op. (Fla. Sup. Ct. Sept. 3, 1992).*

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*Closed*

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*Issue Date: September 21*

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*Closed*

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# States rightfully claim regulatory role: Curiale

By MARK A. HOFMANN

WASHINGTON—The entity that should regulate insurance is the one most closely affected by the insurance marketplace—the state, according to New York's insurance regulator.

Salvatore Curiale, New York's superintendent of insurance, said the most critical question about insurance regulation is not whether the federal government will get involved in what has traditionally been a state-level matter. The critical questions are

whether the federal government *should* get involved and what it will do once it does get involved.

Mr. Curiale presented his case for continued state regulation of insurance during a panel discussion entitled "The Feds Are Coming—or Are They?" at the 60th annual meeting of the American Risk & Insurance Assn. in Washington late last month.

The membership of Sacramento, Calif.-based ARIA, once known as the American Assn. of University Teachers of Insurance, consists of insurance academics and others interested in

the promotion of insurance education.

Mr. Curiale said that the quality of state regulation is "improving every day," but it remains under siege for several reasons, not all of which have a direct relationship to the insurance industry.

High-profile insurance insolvencies, like that of Los Angeles-based Executive Life Insurance Co., have cast insurance regulation in a critical light. And unrelated events, such as the nation's general economic doldrums and the continuing fallout of the savings and loan debacle, have raised questions about regulation in general, he said.

In addition, large property/casualty insurers and brokers want to get "out from under this nettlesome state regulation," said Mr. Curiale.

Despite the pressures for a greater federal role in insurance regulation, Mr. Curiale predicted that the basic state regulatory framework would remain intact.

Effective regulation, he said, requires balancing several countervailing components. The goal of regulation is not just to ensure solvency, not just to ensure availability and not just to ensure fair claims handling; the regulator's goal is to promote all of these aims simultaneously, Mr. Curiale said.

And doing so should be the job of one level of regulation, not two, he said. "You can't balance a ball on more than one nose—ask any seal," he said.

Because the state is most closely affected by the health of the insurance business, it should be the regulator, Mr. Curiale argued. Contrary to critics' contention, it was not a failure of state regulation that led to the insolvencies of several major property/casualty companies during the 1980s, he said.

Instead, the insolvencies were caused by unprecedented economic conditions that led insurers to ignore underwriting basics and fight for market share, he contends.

Mr. Curiale added that the experience of the 1980s makes the cries of some commercial policyholders for complete abolition of form and pricing regulation ironic.

"The myth of the sophisticated insurance buyer who doesn't need or want protection should have been dispelled" by the market contractions of the mid-1980s, he said.

Mr. Curiale said that the federal government probably will become involved in some aspects of insurance regulation. For example, federal courts may assume jurisdiction over insurer liquidation proceedings, he said. However, "a state regulatory system will be preserved" because it has worked for a long time, he predicted.

Jean Rosales, a staff member of the House Subcommittee on Commerce, Consumer Protection and Competitiveness, said congressional interest in some sort of federal regulation of insurance stems more from a vague unease about the industry than a particular desire to run state regulators out of business.

"My sense is that a number of  
*Continued on next page*

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## Regulatory role

Continued from previous page members of Congress simply don't trust the insurance industry," she said.

But she also disputed Mr. Curiale's contention that state regulation is working. The nature of state regulation is uneven: Some states do a good job, others a poor job, she said.

## Efforts to add more courses in insurance

WASHINGTON—The battle to include insurance and risk management courses in the core curriculum of business schools has shifted from the national to the local level, said the new president of the American Risk & Insurance Assn.

Insurance academics "must personally and individually seize this opportunity" to promote insurance education, said Jerry L. Jorgensen, chairman of insurance and risk management at the University of Calgary in Calgary, Alberta, and the new ARIA president.

Mr. Jorgensen made his remarks during his inaugural presidential address at ARIA's annual meeting in Washington late last month.

Sacramento, Calif.-based ARIA represents insurance academics and others interested in the promotion of insurance and risk management education.

For years, ARIA had been lobbying to get risk management and insurance courses included in the so-called "core curriculum" required of colleges and universities accredited by the St. Louis-based American Assembly of Collegiate Schools of Business (BI, Aug. 29, 1988).

But instead of adding more courses to the required core, the AACSB decided to give individual schools more leeway in constructing their curricula, adding that the set of courses also must mesh with individual schools' mission statements.

Mr. Jorgensen urged his audience to get involved in the drafting of these schools' mission statements.

"A strong case was made for the value of risk management" in the AACSB debates over the core curriculum, said Mr. Jorgensen. In fact, the New York-based Risk & Insurance Management Society Inc. has joined in the effort to place risk management in the required bodies of study.

Mr. Jorgensen added that "an equal case" can be made at the individual-school level for the inclusion of insurance studies in the required curriculums.

He told audience members that they should not expect ARIA to do all of their work in promoting the inclusion of insurance and risk management courses, although the organization would be willing to support individual efforts.

"Any furtherance" of the case of insurance education will depend on the efforts of individual academics, he said.

He also called upon attendees to feel proud of their calling as teachers.

"To influence the life of one student may well be worth it all," said Mr. Jorgensen.

—By Mark A. Hofmann

In addition, the National Assn. of Insurance Commissioners can't function as an effective national regulatory body, said Ms. Rosales. One state insurance commissioner can't force another insurance commissioner to do anything, she pointed out.

Ms. Rosales said that the Commerce, Consumer Protection and Competitiveness Subcommittee, which is chaired by Rep. Cardiss Collins, D-Ill., will continue to examine what is wrong with the current regulatory system. She called upon academics to help the subcommittee by staying in touch with its staff and offering suggestions on regulation.

Ms. Rosales also predicted that one of the most sweeping proposals to change insurance regulation—a dual federal-state solvency regulation system—won't become reality anytime soon. She said that H.R. 4900, the two-

track regulation bill drafted by House Energy and Commerce Committee Chairman John Dingell, D-Mich., won't be voted on for a long time.

The federal government will probably become more involved in international insurance questions, Ms. Rosales said. Oversight of the reinsurance industry also increasingly may become a federal task, she said.

But Ms. Rosales stopped short of predicting an end to state insurance regulation. "I've never thought that the state system is totally useless," she said. State regulators will maintain their traditional role as consumer guardians, Ms. Rosales said.

But Lawrence D. Cluff, assistant director of the U.S. General Accounting Office, a congressional agency that audits federal programs, stressed that as far as he was concerned, state regula-

tors do a good job only when the job is easy.

Mr. Cluff said that state regulators have not performed well in the face of such insolvencies as Executive Life and Blue Cross & Blue Shield of West Virginia for a number of reasons. Regulators don't have up-to-date informa-

tion and conduct examinations of insurers' books infrequently, he said. In addition, state laws and regulations are often inadequate, he said.

Rodger S. Lawson, president of the Schaumburg, Ill.-based Alliance of American Insurers, moderated the session.

## Colleges enhancing insurance curricula

By SALLY ROBERTS

NORMAL, Ill.—Haphazardly falling into the insurance industry is now a thing of the past for some students who graduate from Illinois State University.

And the University of Nevada at Las Vegas also hopes to soon

offer students a more direct path to careers in insurance and risk management.

Illinois State University at Normal is expanding its business education program to include an undergraduate degree in insurance. The program is offered

Continued on page 26

## Another case for USF&G: Wichita, KS. June, 1992



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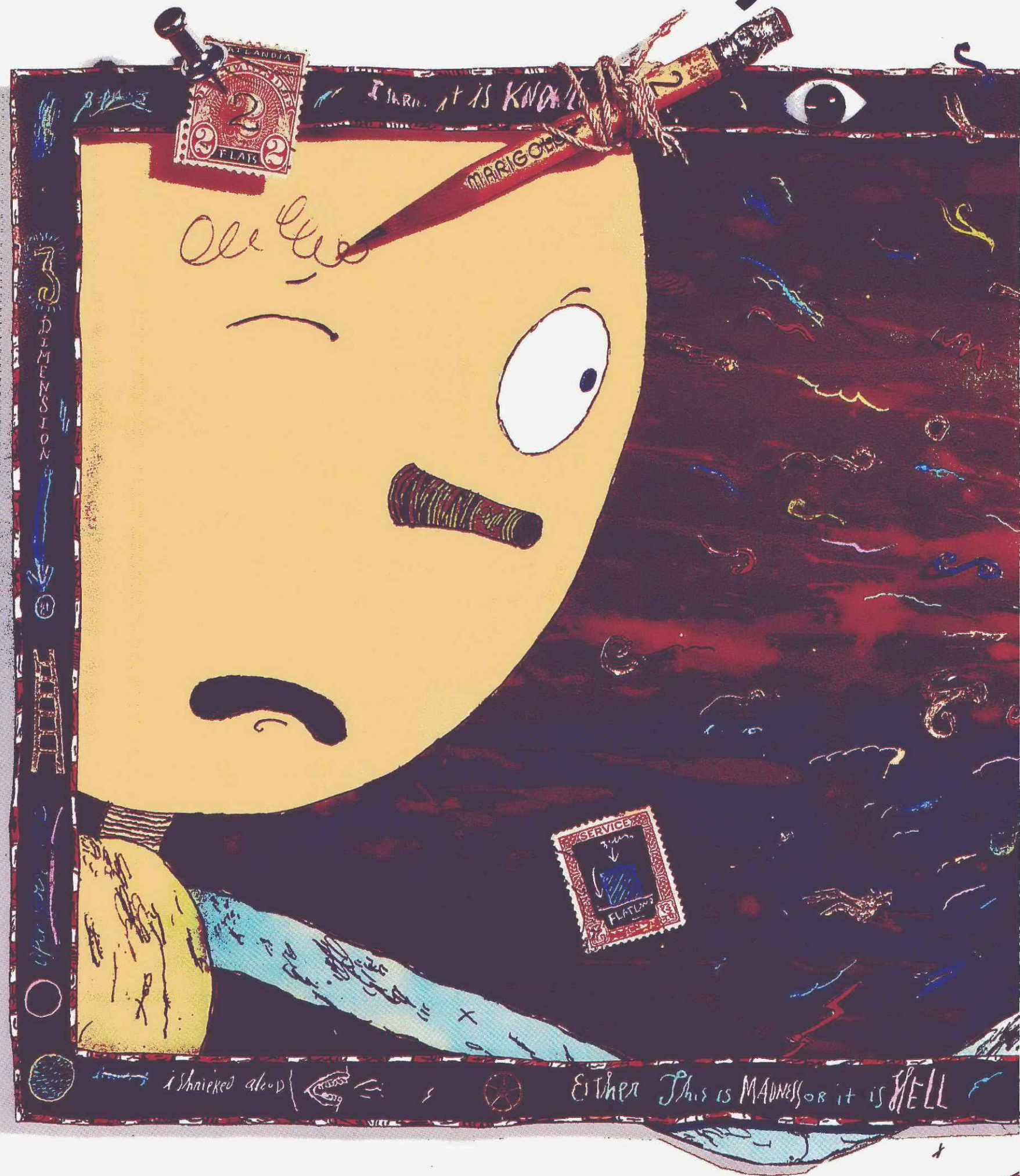
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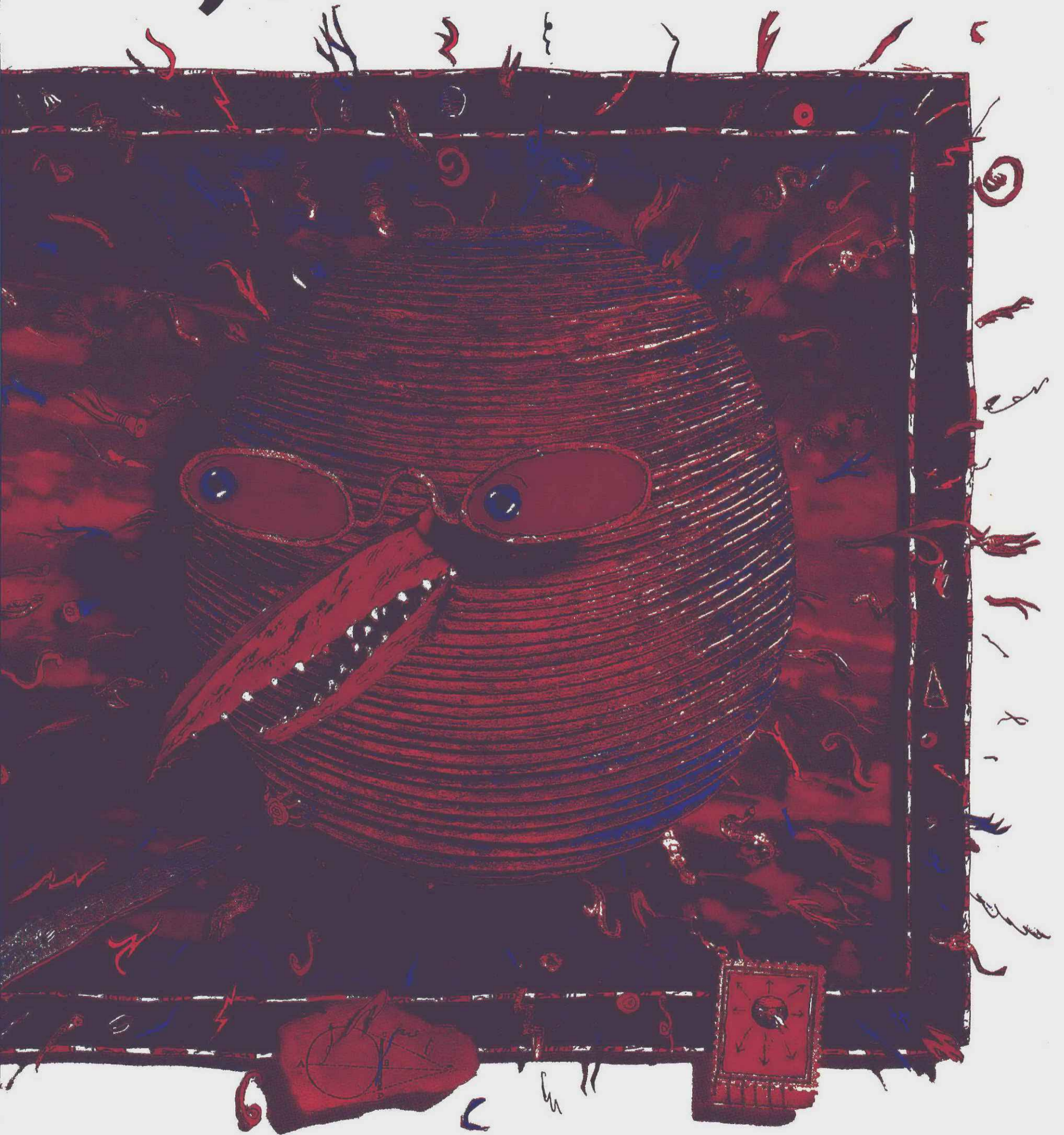


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## Colleges

Continued from page 23 through ISU's Katie School of Insurance, a continuing education arm of the university's College of Business.

The university also has installed a professional insurance fraternity and plans to award scholarships to students pursuing careers in insurance, strengthen insurance internship programs, and create an elective graduate seminar course for students in the College of Business' master of business administration program.

The enhancement to ISU's insurance education program is a joint venture between the university and the insurance industry, according to Charles R. McGuire, who is chairman of ISU's department of finance and law.

The university wants to raise \$3.5 million in the next three years to fund the programs, he said.

So far, \$1.2 million has been raised, primarily through contributions from the insurance industry, as well as some law and accounting firms that deal with insurance, he added.

Previously, ISU offered students pursuing a finance degree a three-class concentration in insurance. Four insurance classes are available for the 1992-1993 school year, including an introductory class in risk and insurance, and classes in life and health insurance, property and liability insurance, and risk management, Mr. McGuire said.

The College of Business Curriculum Committee and University Curriculum Committee are expected to approve proposals for other insurance classes, which would be offered beginning in August 1993, Mr. McGuire said.

One of ISU's greatest achievements, according to Mr. McGuire, is the installation of the first Illinois chapter of Gamma Iota Sigma, a professional insurance fraternity.

Sixty-eight students were initiated last year, the largest number ever installed in the first year of a Gamma Iota Sigma chapter, Mr. McGuire added. The fraternity has 30 other chapters nationwide.

"The level of student interest is incredible," he said. "The kids are streaming in."

The number of students interested in insurance is expected to increase because of the new insurance degree, Mr. McGuire said. Fifteen to 20 students participated in the insurance concentration last year, he said. Approximately 75 to 100 students are expected to declare a major in insurance for the 1992-1993 school year. "We would like to see 150 students in the following year," he said.

ISU is not the only university advancing its insurance program.

The University of Nevada at Las Vegas is laying the groundwork to expand the insurance program in its business school.

"We want to offer an undergraduate degree in insurance and risk management," said Norval Pohl, dean of the college of business and economics at UNLV. However, UNLV is too short on staff and courses to offer the degree right now, he added.

The university hopes to raise \$350,000 to meet the budget for the expanded offerings between now and 1995, Mr. Pohl said.

UNLV presently runs an insti-

tute for insurance and risk management, he said. Under "the institute's umbrella," there are continuing education programs for industry employees who want to earn the Chartered Property & Casualty Underwriter and Associate in Risk Management designations. In addition, the institute sponsors seminars on general insurance issues, Mr. Pohl said.

Additionally, students can earn a degree in financial services in the school of business and take up to 12 hours of insurance and risk management courses, he said. Offerings include two risk and insurance courses, a property and liability insurance course, a life and health insurance course and a new seminar in risk management.

UNLV recently received accreditation for its college of business and economics. ■

## Voters' views

Continued from page 3  
vide an unlimited amount of health care benefits tax-free to employees and their dependents. Employers also can provide up to \$50,000 of group term life insurance without employees being taxed on the premiums.

Also, investment income earned on assets held by pension plans is not taxed until paid out as benefits to plan participants.

A large majority of respondents—85%—said benefits like group health care should not be taxed, while 8% said benefits should be taxed and 7% did not know.

Seventy-three percent of respondents said they would be less likely to vote for their congressmen if he or she supported increasing taxes on benefits.

But, 10% said they would be

more likely to vote for the congressmen.

Eleven percent did not know, and 6% said it would make no difference.

"Candidates running for federal office should heed what voters are saying about protecting the quality of benefits," said Kenneth Feltman, executive director of the Washington-based Employers Council on Flexible Compensation.

ECFC and The ESOP Assn. are charter members of the new Coalition Organized to Stop Taxation of Employee Benefits, which commissioned the survey.

Most voters responding to the survey believe they would be hurt if their employers had to pay more taxes on employee benefits.

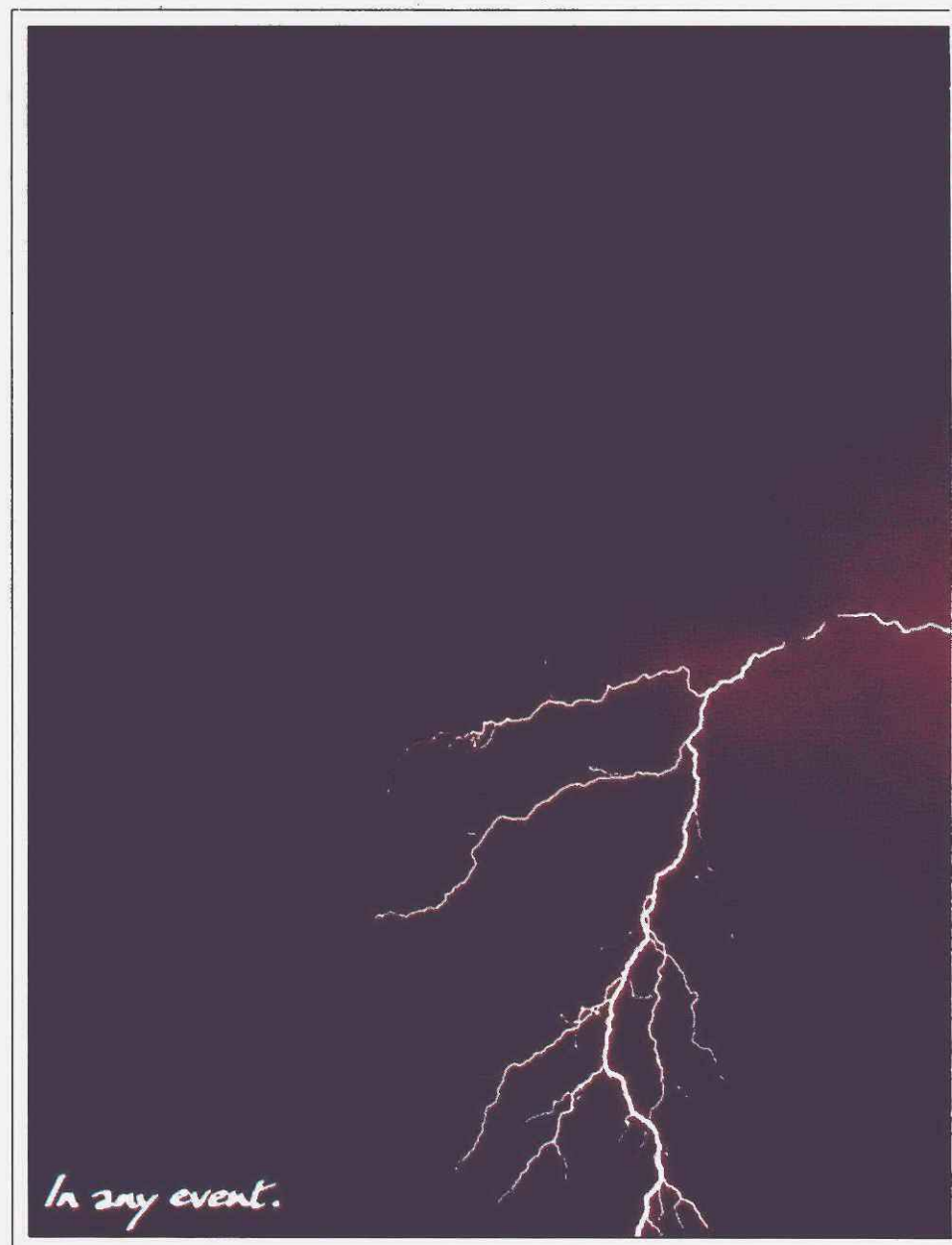
For example, asked what would happen if their employer or their spouse's employer had to

pay more taxes on benefit payments, 38% of the respondents said they would end up paying more for benefits, 21% said the value of their benefits would be reduced and 13% said either their own or their spouse's employer would reduce or cancel benefits.

Sixteen percent said nothing would happen to their benefits and 12% did not know.

"Workers don't want their benefits taxed because they know they will end up paying the price," Mr. Feltman said.

•  
Copies of the study, "Consumer Caravan," are available from the Employers Council on Flexible Compensation, 927 15th St. N.W., 10th Floor, Washington, D.C. 20005; 202-659-4300. The survey is free for members of the ECFC and The ESOP Assn. The cost is \$15 for non-members.



*In any event.*

## Letters

### Study points out unintended effects of civil litigation

To the editor: The Aug. 24 editorial, "Tread Gently With Tort Reform," takes us gently to task for "tying the tort reform movement to the collapse of the S&Ls." You tell us this is a "poor legislative strategy." We will take your advice to heart, but we must protest that we do not intend to use the study prepared for us by AUS Consultants in support of a legislative initiative. We were trying to make a simple but important point to the public about civil litigation.

The thousands of lawsuits against accounting firms result-

ing from savings and loan failures are well-intended, and to the extent that their negligence was responsible for S&L losses, the firms should be held liable.

Our point is that there is something called the law of unintended consequences. However worthy our conscious goals, our actions may also have effects we do not intend and that are not in fact in our interest. The intended benefits of suing accounting firms are obvious, as is the potential cost to the firms, but are there other, even larger *unintended* economic consequences?

It was to answer this question that the American Tort Reform Assn. commissioned the AUS study. The report confirms our suspicions. The higher standards mandated by these lawsuits will increase the cost of raising equity capital by as much as 1.3% over the next five years. These

increased capital costs translate into reduced investment, less output and fewer jobs; in fact, 224,000 fewer jobs each year. Do the benefits outweigh these costs? No one has asked the question.

The moral of our story is that beyond the obvious costs of bringing, defending and settling claims and paying judgments, lawsuits often entail larger unintended economic and social costs which our civil justice system, focusing solely on the rights and remedies of individual litigants, overlooks. The accounting cases illustrate this point well. And so, for example, do the asbestos cases and others. We thought it important that policy makers and the public know this.

**Martin F. Connor**  
President  
American Tort Reform Assn.  
Washington

### L.A. rail project audit conclusions criticized as faulty

To the editor: The Aug. 3 article, "Report Hits Safety Record for L.A. Subway Project," cites an audit report conducted by Fluor Daniel and Kellogg Corp. of the Los Angeles County Transportation Commission Rail Construction Project. The report concludes that the Sedgwick James joint venture (Metro Transit Insurance Administrators) underreported work-related accidents and, therefore, overstated the safety record of the project.

Unfortunately, the conclusions are based on an incorrect understanding of the responsibilities of the parties involved and what constitutes a recordable incident under Cal-OSHA guidelines. Spe-

cifically:

- Contrary to the impressions given in the audit report, MTIA was never assigned responsibility in its contract with the Rail Construction Corp. for the accuracy of contractors' recordable incident rates. The construction manager had the contractual responsibility to collect and distribute the incident data. The Sedgwick James joint venture voluntarily compiled the data it received from the construction manager and submitted it in a summary format as a service to our client, RCC, and the construction manager.

- The erroneous method used by Fluor Daniel and Kellogg to "audit" workers compensation claims significantly overstated the Cal-OSHA recordable incident rates. The audit used only recordable class descriptions and ignored the Cal-OSHA non-recordable class descriptions. Consequently, the audit found that every workers compensation claim it examined for the year 1989 was recordable.

This method completely ignores the cautionary statement that Cal-OSHA includes in its instructions, that the recordable classes, as listed, are "generally" considered medical treatment. Cal-OSHA further states that, although an employer's report of occupational injury or illness has been submitted to the workers compensation insurer, it does not necessarily make a case recordable for Cal-OSHA.

MTIA's test of 43 randomly selected claims files revealed that many of the cases reclassified by the auditors should have remained non-recordable, in accordance with Cal-OSHA instructions.

- Safety program management and enforcement is the contractual responsibility of the construction manager, not the administrators. In fact, the safety audit report itself directs 29 of 35 recommendations toward construction management, not MTIA.

- The workers compensation records of the Los Angeles County Transportation Rail Projects have been outstanding. The incident rate (which the audit overstates) does not determine the cost of workers compensation insurance. Severity, not frequency, is the significant consideration. RCC has received \$12,843,836 in dividends returned since 1986, and continues to maintain a 47% workers compensation loss ratio on the projects, which is an outstanding result. The Los Angeles County Transportation Commission can be justifiably proud of these savings delivered to the taxpayers of California.

The Fluor Daniel and Kellogg Corp. audit report obscures the fine efforts of many contractors' safety personnel and the insurer. Workers compensation costs are the ultimate barometer of success of a construction safety program, and the L.A. rail projects have thus far produced an excellent insurance safety record since 1986, under extremely difficult circumstances.

**V. Wallace Ryland**  
President,  
Construction Services Division  
Sedgwick James Inc.  
Los Angeles

### Swett & Crawford details coverage for bungee outlets

To the editor: We read with interest your recent feature on bungee jumping (*BI*, July 27). As pioneers in this area of coverage, we wanted to note that Swett  
*Continued on next page*



MERCANTILE & GENERAL

REINSURANCE

# Letters

Continued from previous page  
& Crawford Group has exclusive arrangements with St. Paul Surplus Lines Insurance Co. and Investors Insurance Co. to market a coverage program for bungee jumping firms.

Our access to Investors Insurance has been in place for more than a year; the arrangement with St. Paul Surplus Lines is more recent. We worked closely with broker Sports & Entertainment Insurance Services on this program.

As readers can well imagine from the article, identifying the needs of this industry has proven to be a highly interesting challenge. As the bungee jumping industry matures, we see a move away from facilities where a crane is used to lift participants for their jump, with more operators opting to centralize and build permanent towers at amusement parks and other complexes.

**Nanci L. Hoffman**  
Vp/Manager of  
Corporate Communications  
Swett & Crawford Group  
Los Angeles

## 2 surplus lines insurers omitted from directory

The following insurance company listings were inadvertently omitted from the Aug. 17 directory of surplus lines insurers.

**Empire Indemnity Insurance Co.**  
1624 Douglas St., Omaha, Neb.  
68102; 402-341-0135;  
fax: 402-271-2510

	1991	1990
Gross premiums...	\$15,210,995	\$23,866,484
Non-admitted...	\$13,561,481	\$21,513,641
Commercial risks...	89.1%	90.1%
Paid-in capital...	\$2,500,000	\$1,500,000
Capital & surplus...	\$16,394,872	\$15,289,241
Employees...	199	187
Net income...	\$1,105,631	\$990,601
Best's rating...	A	A

**Founded:** 1957.  
**Parent company:** Empire Fire & Marine Insurance Co.  
**Specialties:** Hazardous transports, monoline commercial auto, excess private passenger, liquified petroleum gas, garbage trucks.  
**Approved non-admitted in:** All states except Alaska, Connecticut, New Hampshire, New York, New Jersey, Oklahoma, Maine and Massachusetts.  
**Admitted in:** Oklahoma.  
**Principal officers:** R.F. Williams, C.B. Ralph, J.W. Paulsen, K.H. Purcell, S.R. Sell.  
**Contact:** J.W. Paulsen.

**Essex Insurance Co.**  
4551 Cox Road, Glen Allen, Va.  
23060-3382; 804-273-1400;  
fax: 804-273-1435

	1991	1990
Gross premiums...	\$42,977,355	\$45,735,186
Non-admitted...	\$43,336,097	\$45,621,710
Commercial risks...	100%	100%
Net premiums...	\$25,183,256	\$28,179,668
Paid-in capital...	\$4,500,000	\$1,500,000
Capital & surplus...	\$26,814,170	\$18,091,271
Employees...	105	105
Combined ratio 1...	72.9%	77.5%
Combined ratio 2...	71%	77.6%
Net income...	\$9,408,808	\$5,032,520
Best's rating...	A	A-

**Founded:** 1980.  
**Parent company:** Markel Corp.  
**Specialties:** Commercial general liability, commercial property, motor truck cargo and other inland marine, commercial auto physical damage.  
**Subsidiaries:** Richmond Insurance Co. (Illinois domicile), Glen Allen, Va.  
**Approved non-admitted in:** All states except Delaware.  
**Admitted in:** Delaware.  
**Principal officers:** Anthony F. Markel, president; Britton L. Glisson, executive vp; Jacque S. Ash, senior vp; Raymond A. Johnson, vp; Steven A. Markel, treasurer.  
**Contact:** Britton L. Glisson.

## Sanus objects to methodology of HMO survey

To the editor: We appreciate your coverage of the results of the recent survey by Consumer Reports that ranked health maintenance organizations (BI, Aug. 10).

However, we feel that we should point out some important information about the survey, which arbitrarily compares plans with diverse characteristics operating in different areas of the country.

Sanus Corp.'s commitment to providing top-quality health care has most recently been recognized on a national level by HealthPlan Management Services, an organization that rates HMOs locally and nationally.

The local Sanus plans were ranked second in Houston and first in St. Louis and Dallas by HealthPlan.

In addition, Sanus was ranked third among all national managed health care companies.

Consumer Reports surveyed only Sanus/New York Life Plan members in the Houston area based on member experiences from spring 1990 through spring 1991.

During this time, a merger was being implemented between Sanus Health Plan and Maxicare, a plan that had deteriorating service levels due to a struggle with bankruptcy.

The original Sanus Health Plan in Houston had only 45,000 members. The integration of 180,000 new members into this plan in a relatively short period of time presented a staggering challenge to Sanus during the

period covered by the Consumer Reports survey.

Since then, we have made enormous progress in the service delivery and customer responsiveness to all our members and are committed to continuing to improve service in the Houston area.

In the Consumer Reports survey, Sanus was rated low in the area of satisfaction with medical specialists. This rating was very surprising. The city of Houston is home to some of the finest medical establishments in the United States.

Sanus has strong, long-term relationships there with some of this country's most renowned medical specialists at St. Luke's Episcopal Hospital, Memorial Hospital System Kelsey-Seybold Clinic and University Medical Group.

Rather than a snapshot survey

of the Houston area, we believe the focus should be on achieving true member satisfaction in a difficult climate.

Sanus has monitored member satisfaction levels through an intensive telemarketing effort conducted from corporate headquarters.

As a result of member feedback, nine out of 10 Houston members tell us they would re-enroll when the plan comes up for renewal.

Enhancements in claims processing, improved customer service and expanded physician advisory committees are all direct outgrowths of member feedback that helps keep the Sanus/New York Life Health Plan first-rate.

**Martin B. Rosen**  
National Vp-Marketing  
Sanus/New York Life  
Health Plan  
New York



# We make history. Others simply...

In 1917, American Re was formed to underwrite Worker's Comp for seven coal mining families in Pennsylvania. Seventy-five years later, one of our first clients is still with us. In fact, over half of our clients have been with us 20 years or longer.

It takes enduring quality to maintain financial strength and client relationships through hard and soft markets. In 1985, when capacity got tight, we didn't close offices or reduce coverage. Our record of constancy helped our clients through

the tough times. Some reinsurers didn't make the same constant commitment; some didn't make it at all.

With stability, we offer innovation. Systems and services especially designed to meet our clients' needs. We bring together specialists from across divisional, corporate and geographic lines to provide customized solutions for our clients. We have actually restructured our company to give full access to the best minds in the business with a flexible, coordinated response

## ADR techniques

Continued from page 3  
ing a lawsuit, frees up the courts for more appropriate litigation and can be less adversarial.

Opponents, though, say it could deprive parties of their right to trial. And some say that by emphasizing settlement, ADR forces a company to give up its ability to "win" a dispute, even if it feels it is in the right.

"Of the many ways disputes can be resolved, trial is the least used and most expensive, so to have it as your only option is inefficient," commented Scott P. Moser, an attorney at Day, Berry & Howard in Hartford, Conn. Mr. Moser, an ADR specialist, headed the Connecticut Bar Assn.'s committee on ADR for three years.

Nearly 19 of every 20 civil suits settle before trial. Alternative dispute resolution is designed to speed

up that process, saving everyone involved the financial and psychological toll of drawn-out litigation while clearing space on court dockets.

"There are always tales of settling on the courthouse steps," said Robert A. Parsons, assistant general counsel for Nationwide Insurance Co. in Columbus, Ohio. "Sometimes you just need a catalyst to get people to talk and educate each other about what the heart of the problem really is."

Good ADR programs, he adds, ensure neutrality, provide a forum for mutual education, save money for all parties and encourage the parties themselves, not just their lawyers, to join in negotiations.

Much of the criticism of alternative dispute resolution focuses on public policy concerns. There is a concern that resolving disputes privately will keep a lid on information that could be very impor-

tant, even vital, to public safety or health.

And ultimately, some people fear, the rights of less wealthy or powerful parties will not be protected as well outside a courtroom as they are inside.

"That suspicion is probably increased by the insurance industry's support of ADR," acknowledges Craig A. McEwen, a sociology professor at Bowdoin College in Brunswick, Maine, and a specialist in dispute resolution.

Another broad criticism of ADR is that creating ever more efficient ways to privately resolve disputes deflects attention from reforming or repairing the strained civil justice system.

"If people are driven to use ADR in part because courts are too slow and find that they can buy dispute resolution in the private sector, that is likely to draw attention away from improving the courts,"

said Mr. McEwen, who is himself a strong supporter of ADR and a member of the Society of Professionals in Dispute Resolution, a Washington-based trade group for dispute resolution practitioners.

But with 14% of federal judge-ships vacant as of March 31, and civil courts competing with equally overburdened criminal courts for resources, supporters of ADR say it clears space on the docket for cases that really need to get into a courtroom.

Americans need to break away from their "cult attitude toward litigation as the only resort," argues Nationwide's Mr. Parsons. "We have to get Judge Wapner to not be the only answer."

"Lawsuits are just disputes blown out of proportion. ADR puts it all back in perspective," said Ken L. LeMaster, an in-house attorney at SAFECO Insurance Co. in Seattle who founded a not-for-

profit ADR group called Settlement Now.

Saving money is the most obvious attraction to ADR for corporations.

Dow Chemical Co. of Midland, Mich., for example, confirms it is sued about 2,000 times a year in U.S. courts, and its legal costs can hit as high as \$250,000 before each case even gets to trial.

Private ADR, by contrast, costs from \$500 to \$5,000 for a full day of negotiating. Settlement typically takes from a few days to less than two months depending on the complexity of the case.

But costs are not the only consideration. Companies may also select alternative dispute resolution when they want or need to maintain relationships with the other parties.

"As a trial lawyer you don't just want to win, you want the other guy to lose," said John Bates, co-founder of San Francisco-based Bates Edward Group, a private ADR firm.

"But as a mediator you can create a win-win situation, and litigators can be problem solvers instead of hired guns," he said.

This has long been an appealing feature of these alternatives for insurance companies, which want to retain policyholders.

"(Insurers were) in the ADR business long before it was a popular thing," noted Nationwide's Mr. Parsons.

International disputes may also be particularly well-suited to ADR. Binding agreements reached in ADR are more enforceable abroad than a U.S. court judgment, according to Michael Young, a vp at Endispute, a private dispute resolution firm based in Washington.

ADR traces its roots to 1926, when the American Arbitration Assn. was founded in New York. In spite of the trade group's location, these litigation alternatives were long considered a "California thing" and only began moving east in earnest in the 1980s.

"In California the market is ripe, but on the East Coast we still have to convince people and tell them point by point what ADR is about and what the advantages are," said Karen Porush, director of marketing for Judicate, an ADR firm based in Lake Success, N.Y.

Originally, parties that did not want to go to court had only one alternative: arbitration, in which an arbitrator hears each side's position, then renders a decision that is contractually binding and usually not appealable to a court.

One notable experiment with ADR on a large scale began in 1977. Civil courts in Orange County, Calif., began running settlement conferences, setting aside days on which judges ordered selected cases before a neutral "pro temp" who would evaluate the case and suggest a settlement.

If the parties rejected those terms, they moved on to arbitration, where neutral parties would make binding rulings.

Most ADR efforts now focus on mediation, a less-restrictive process in which a mediator does not even render a judgment. Instead, he acts as a go-between, holding caucus discussions with both sides to encourage compromise. Mediation is non-binding; parties can walk away at any time.

"ADR is going to expand tremendously in the next few years, and the area that is going to expand the most is mediation," predicts Leif A. Bentsen, assistant director with U.S. Arbitration & Mediation in Seattle.

Mediation appeals to people who like to control outcomes rather

Continued on page 32



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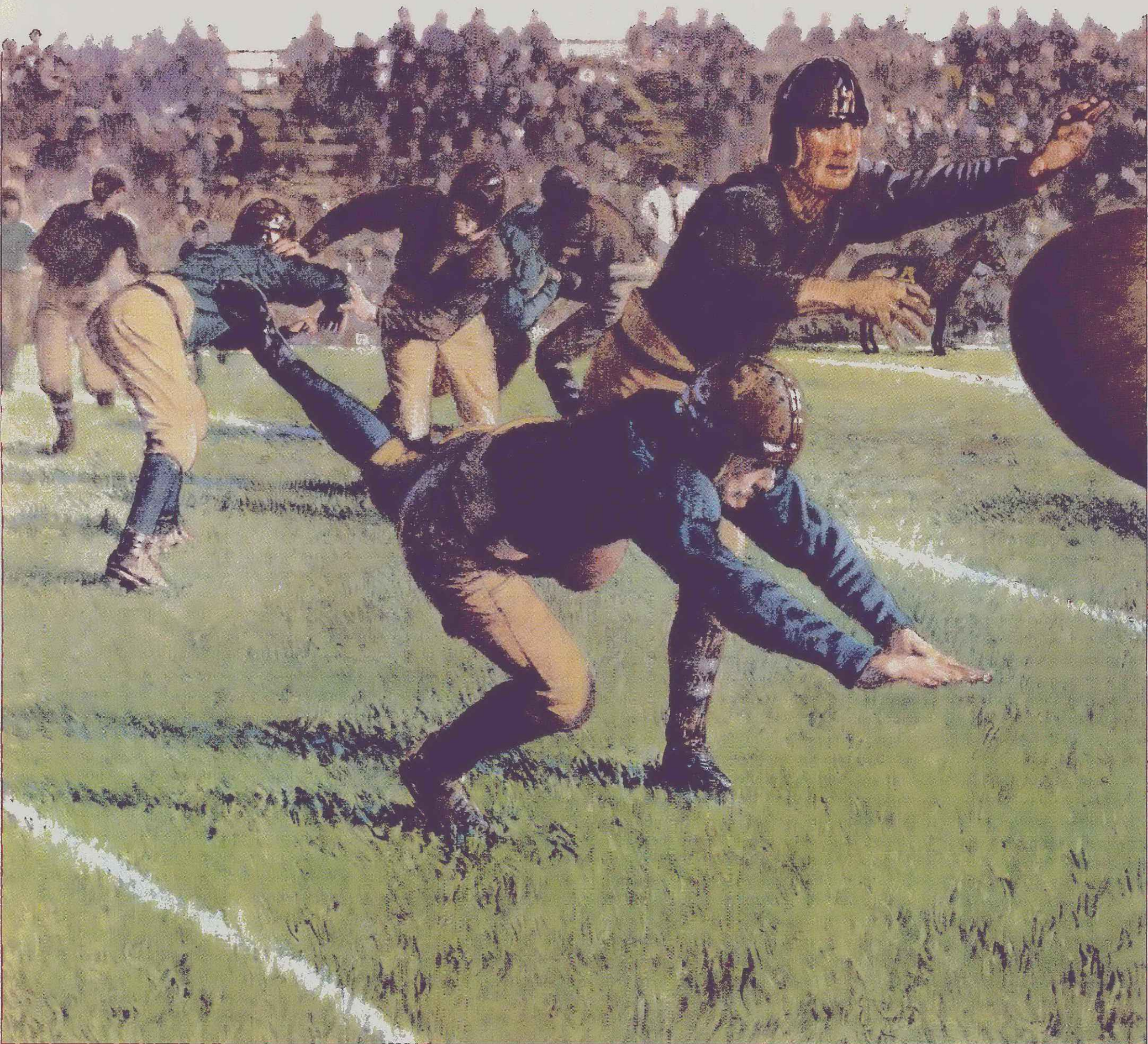
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## ADR techniques

Continued from page 29  
than having a decision imposed on them, Mr. Bentsen said.

It is characterized by the candid nature of the caucus discussions, said James A. Ready, a partner at Bricker & Eckler, a Columbus, Ohio, law firm who is involved in an ADR program sponsored by the Columbus Bar Assn. (see story, page 33).

"The mediator can play devil's advocate and probe at how good the case is," said Mr. Ready. "People get to see for the first time the holes in their case," which makes

them more eager to settle.

Other common forms of ADR include minitrials, moderated settlement conferences and summary jury trials (see chart).

Some ADR programs require participants to give written presentations while others allow only oral arguments. Rules on evidence and pre-trial information gathering vary by ADR method, but are more relaxed than in a trial.

In place of courtroom judges, ADR proceedings typically use "neutrals" to render a decision or advise the parties. Many are former judges, attorneys or industry experts who go through training

that combines role playing and observation of live or videotaped negotiations.

There is no shortage of theories about whether judges, attorneys or industry experts make the best neutrals.

Among the desired traits are legal expertise or knowledge of a specific field, lack of personal or professional bias and the ability to take a completely fresh look at a particular case.

Background may not even have any bearing at all on a person's skill in ADR because it is really a field unto itself, said Mr. Moser, the Hartford, Conn., lawyer.

"A guy can be the best prosecutor in the state," he says, "but I'd rather have someone who 20 times over sat down and got people to agree—that person can mediate."

Seven organizations now offer a full range of ADR services on a national basis, while numerous other firms more regional or local services. The national firms are:

- **American Arbitration Assn.**

The nation's oldest ADR group, this not-for-profit organization began an arbitration program for insurance disputes in 1983. Mediation as well as arbitration is now offered in 35 offices around the nation.

Settlement must be reached within 100 days, but it usually takes only about 30. In 1991, AAA handled 7,500 insurance disputes with an 80% settlement rate.

Charges are \$200 to \$500 per day for neutrals and an administrative fee that ranges from \$300 to \$2,500.

Arbitrators have 10 years of experience as lawyers or judges plus additional ADR training. Mediators may be experts from various industries.

- **Center for Public Resources.**

This not-for-profit group in New York began its settlement program in 1979. Its "Panel of Neutrals"—professors, attorneys and judges—handles about 1,200 cases a year with an 80% settlement rate.

For each dispute, this panel is pared down to a list of people with expertise in a given area and without potential conflicts of interest. Then the parties in a dispute select a few individuals and rank their preferences. The highest ranking common selection will serve as the neutral.

Charges are \$175 to \$400 an hour for neutrals, and a one-time administrative fee for parties that do not belong to CPR.

CPR is well known for setting up settlement days to deal with a large number of a particular type of dispute, like asbestos cases.

It also sets up facilities to mediate a large number of cases stemming from a particular incident, like the Oakland, Calif., fires last year, said Vp James C. Murray.

- **Judicial, Arbitration & Mediation Services.**

JAMS, which was founded by a retired California Superior Court judge in 1979, was the first major for-profit ADR company. Based in Orange, Calif., JAMS has 13 other California offices as well as branches in Washington, Oregon,

Continued on next page

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### Alternative dispute resolution: What's available

- **Arbitration** - Parties present their cases to a single arbitrator who renders a decision that is contractually binding and usually not appealable to a court.
- **High-low arbitration** - Award is guaranteed to be within a specific range. If arbitrator's award is higher or lower, it is disregarded.
- **Mediation** - Mediator acts as go-between in series of settlement meetings both individually and with each party present. Decision is non-binding and parties can walk away.
- **Minitrial** - Parties make their cases before a neutral or a simulated jury. No witnesses; relaxed rules of evidence. An advisory opinion from the jury serves as basis for negotiation.
- **Moderated settlement conference** - Similar to minitrial, but panel of neutral individuals gives advisory opinion on amount of damages, not on issue of liability.
- **Non-binding arbitration** - An arbitrator's decision is used as a basis for further negotiation.
- **Settlement days** - Days on which corporations or insurers line up compact negotiations on anywhere from five to 50 cases. With or without mediator.
- **Summary jury trial** - Simulated jury hears arguments and gives advisory ruling on damages and liability.

## How one town's lawyers clear civil court's docket

COLUMBUS, Ohio—Like the cobbler who awoke to find a row of new shoes mysteriously made during the night, twice a year the Franklin County civil court judges go out of town for a week and return to find their calendars short some 200 cases.

While the judges are away, local lawyers run the show. Two prominent members of the local bar, in fact, take over the court house to hold a "settlement week." In that five-day span, some 550 trial-

bound cases are mediated free of charge by lawyers trained in the technique.

This has been going on since 1986, when the two read about a similar program in Orange County, Calif. Periodically, judges there would order handpicked cases into settlement conferences and, if those failed, into arbitration.

"I said to myself, 'Why not see if we can't really dramatize things and shut down the courts for a

*Continued on page 36*

*Continued from previous page*  
Texas, Georgia and New York.

All of its 178 neutrals are former judges, most working in the same cities where they sat on the bench. About 85% of the 10,000 cases they handled in 1991 were settled.

Charges are a \$125 administrative fee plus an hourly fee of \$150 to \$175. One day of negotiations costs about \$1,025 for each party. There is also a flat fee of \$350 for personal injury cases that settle for less than \$50,000. The company offers several settlement programs, and settlement usually takes four to six weeks.

• **Endispute.**

Founded in 1981, the Washington-based firm has offices in San Francisco, Chicago, New York, Boston and Hong Kong.

Its neutrals are attorneys and judges. Charges are \$250 to \$350 an hour, to be split between the parties; daily rates are offered.

The company handled about 5,000 cases in 1991, settling about 75% of the bigger cases and 90% of the smaller ones.

Personal injury cases, the bulk of its caseload, usually settle in less than a week. More complex matters take one to two months.

• **United States Arbitration & Mediation.**

This 8-year-old firm, headquartered in Seattle, has 43 national offices and five in Europe. Its caseload grew from 5,200 to 6,000 between 1990 and 1991; its settlement rate is about 80%.

Neutrals must have worked as lawyers or judges for five years. Charges are a \$275 to \$300 administrative fee and hourly fees of \$200 to \$300 per party.

USA&M appeals to the insurance industry with its mediated settlement days, which it holds in local conference spaces, according to Mr. Bentsen.

• **Judicate.**

Headquartered in Lake Success, N.Y., Judicate also has regional offices in Philadelphia and Irvine, Calif.

The 8-year-old firm handles about 2,600 cases a year with a 85% settlement rate in mediation, which is its mainstay. Cases typically take about eight weeks.

Judicate employs 600 local judges across the country. It is the only program that does not have a formal in-house program to train its neutrals.

Charges are a \$50 administrative fee, and hourly fees of about \$150. Many of its cases are personal injury—"the bread and butter of the insurance industry and so also the ADR industry," a spokeswoman said.

The firm appeals to the insurance industry with its "Judge Day" program, in which a judge goes to an insurance company's office to "preside" over a series of disputes between it and its policyholders.

An ADR coordinator helps the company in choosing cases likely to settle and in getting policyholders to come to the table.

• **Bates-Edwards Group.**

The newest national firm on the block, Bates-Edwards Group handled 300 cases in 20 states in 1991, its first year. Its settlement rate: 90%.

The firm's settlement process usually includes a one day meeting and follow-up.

The San Francisco company has offices in San Diego and Portland, Ore., and its 15 mediators, including co-founders Mr. Bates and Bruce Edwards, are all former trial lawyers. There are long-term plans to open 25 offices nationwide.

•  
Copy Editor Timothy Stanton contributed to this report.

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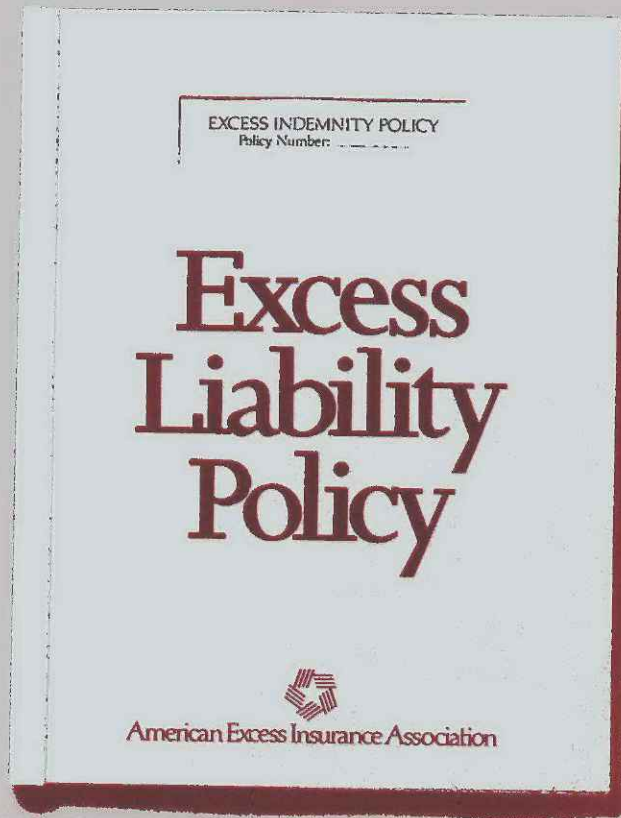
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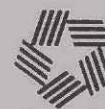
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## Settlement week

Continued from page 33  
 week?" said James A. Ready, who is a partner with Bricker & Eckler in Columbus and was then head of the local bar association.

Orange County has since dropped its program in favor of another program designed to speed up settlements, but Franklin County holds two settlement weeks each year: one in May, the other in November.

Cases are recommended by judges, and volunteered by plaintiff and defendant attorneys and by insurance companies, which strongly support the program.

Mediation is used in place of settlement conferences so parties may continue on to trial if they cannot settle. Many, though, do resolve their disputes: Settlement rates have risen to 43% this year from 27% in 1986.

But more important to some than the "success rate" percentage is the sheer number of cases moved along. During this week, 230 to 240 cases settle—more than five times the number of trials that would close in a week.

Those cases are removed from the court's crowded docket, "turning dead time into highly productive time," said the program's other founder, Harold Paddock, referee and magistrate for the common pleas court.

Mr. Paddock's own renown has grown with that of his brainchild. Bearing the title "Consultant on Settlement Week" on his business card, he has spawned various settlement week spinoffs across Ohio and in Seattle and Rochester, N.Y.

Perhaps his best-known work was in Texas. After a highly publicized premier in Fort Worth settlement weeks caught on with local bar groups. Then, in 1989, the state

**'I'd like people to see lawyers as wise counselors, rather than hard-nosed barristers,' says Mr. Paddock.**

passed the Settlement Week Act, which requires all large counties to hold a settlement week twice a year.

"The settlement week in Fort Worth gave people the opportunity to show leadership and vision," said Edna de los Santos, a former member of a State Bar of Texas' subcommittee on Settlement Week. "Insurers paid the costs of the first week and attorneys did pro bono work."

Settlement weeks were strictly a county court phenomenon until

1990. That is when the Monroe County (N.Y.) Bar Assn. invited civil, superior and federal district courts to contribute cases to its first settlement week. Each court sent 120 cases to be mediated by 160 bar association members in Rochester. About 42% settled.

To champions of this sort of ADR technique, the good publicity may be as important as progress in reducing case backlogs.

"It shows in a high profile way that mediation can work," said Beth Keigher, executive director of the Monroe County Bar Assn.

For Messrs. Ready and Paddock, the goals are clear.

"I'd like people to see lawyers as wise counselors, rather than hard-nosed barristers," said Mr. Paddock.

Mr. Ready hopes to convince the public "that suit is the last resort, not the first resort."

—By Eileen P. Gunn

## Big firms can't afford to overlook ADR tools

Rising legal costs are stirring even corporate giants into action.

Companies like Motorola, General Mills, GM and DuPont all want to avoid litigation. To do so, they are developing in-house alternative dispute resolution strategies that attack active and potential disputes head on.

Direct savings on litigation are only part of the equation. The companies also aim to cut losses

Continued on next page

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Continued from previous page  
from disruption of business, internal disruption and damaged business relationships.

One of the oldest and most aggressive corporate ADR policies is in place at Motorola Inc. in Schaumburg, Ill.

To head off disputes before they become lawsuits, the company treats litigation as a business rather than legal concern, explained Richard Weise, general counsel. Managers are expected to routinely foresee and prevent disputes while developing and maintaining their business relationships.

In the early 1980s Mr. Weise secured a commitment to ADR from Motorola's top management. He then established a training program for in-house counsel and management.

"We need the involvement of management because it's their

business that's at stake, and the dispute arose out of their business," said Mr. Weise.

In-house and outside counsel are now required to seek alternatives to litigation at every step in the "dispute cycle." As an incentive to do so, Motorola requires counsel to put all trial-bound cases through a screening process that involves extensive questions about the nature and estimated costs of a suit, why it should be pursued, what other methods of resolution were tried and what the results were.

On cases that are mediated, Motorola figures it saves an average of 75% on its legal costs.

"We concluded that litigation is unaffordable," Mr. Weise said. "So the question is not whether but when to settle—when the dispute arises or on the courthouse steps."

For 15 years, General Mills Inc. has made ADR clauses standard in supply, acquisition and employee

contracts, and insurance and reinsurance policies.

General Mills does not consider itself in an industry with a "high litigation threshold," said Clifford L. Whitehill, its general counsel. The Minneapolis-based company's chief motivation to use ADR was not a need for cost-control, but a lack of confidence in the courts' ability to handle business trials.

"In the 17th century, we were promised a trial by our peers, which was fine because the butcher and the baker understood one another's problems," Mr. Whitehill explains. "But now, you have complicated business cases where a jury of peers is impossible to come by."

General Mills has turned instead to ADR groups such as the American Arbitration Assn. and the Center for Public Resources where a dispute will be handled by an industry or legal expert.

General Motors Corp. takes a similar approach, but focuses its efforts on heading off recurring disputes with its dealers.

Last year, the Detroit automaker and its dealers established a standard contract clause requiring certain of their disputes to be mediated by Endispute, a private ADR firm in Washington.

"There is no question disputes are settled more quickly" and at lower cost now, said Michael Basford, a GM lawyer.

E.I. du Pont de Nemours & Co. says it goes a step beyond dispute control.

Large contracts between the Wilmington, Del.-based chemical concern and engineering firms with which the company has long-standing relationships include a "partnering" clause.

Representatives of both companies meet informally before a project begins. On the agenda: dis-

putes that may arise and ways to resolve them.

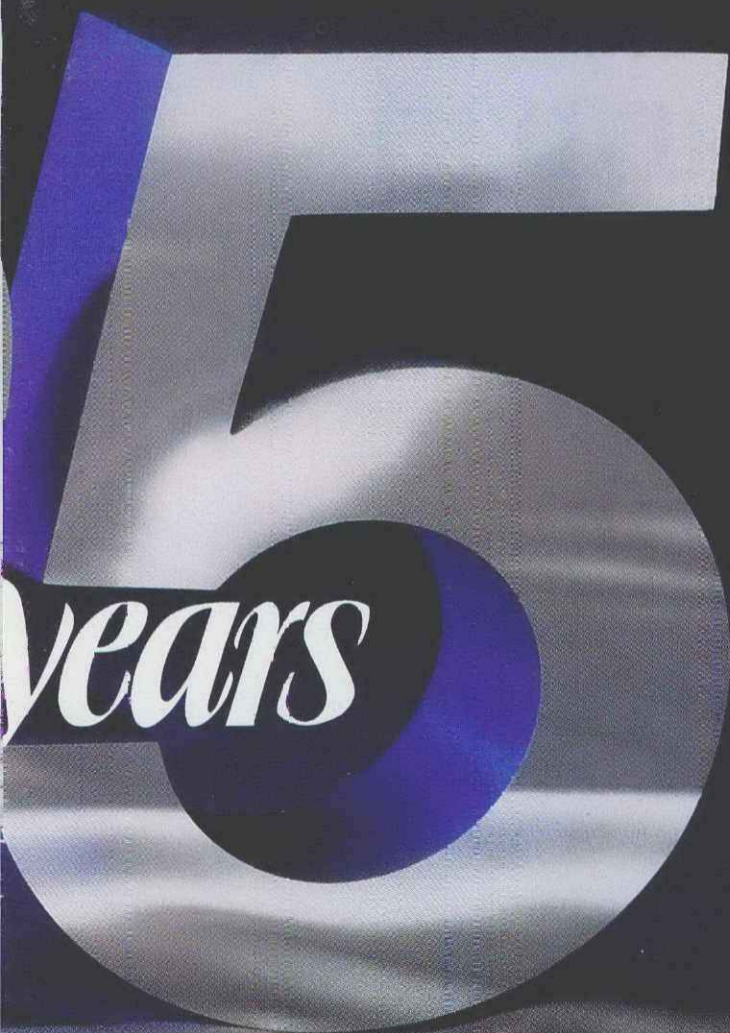
"It's a dispute resolution technique that is implemented beforehand," said Ray Ripple, a Du Pont lawyer.

Though partnering is technically only an option, when the contract is with an established associate and worth more than \$1 million "we expect it, and they've got to justify not having it," said William R. Rubert, another in-house attorney for Du Pont.

Such in-house dispute resolution will become standard corporate procedure, predicts James Henry, president of the Center for Public Resources in New York. The best programs will involve the entire legal department, implement an examination of potential for ADR at every step in a dispute, and above all have "thorough commitment from the top," he said.

—By Eileen P. Gunn

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# 'User-friendly' programs

## How to find products truly made with the user's needs in mind

ANYONE WHO HAS BEEN remotely involved with a computer has heard the oft-used and much maligned term "user friendly." It is yet another buzzword the computer industry has unleashed on us.

Yet, it is a critical term because it has to do with how easy a software program is to learn to operate and, most importantly, to amend.

User friendliness is important to the risk management professional in using risk management information systems (or any other information system, for that matter).

To more practically illustrate and explain this topic, I have asked a real expert, Rick Hoehne, president of Paradigm Infosystems of Bothell, Wash., to comment.

Mr. Hoehne's company produces an RMIS that is among the most user-friendly systems available because it is developed for the Apple Macintosh environment, which has long recognized the importance of ease of use as it relates to productivity.

First of all, how do we define user friendliness? Unfortunately, this is very subjective and should not be taken at face value.

Just like all insurance programs are "extremely competitive and comprehensive," so all risk management information systems and software packages claim to be user friendly.

But your definition and my definition of user friendly may be miles apart. Indeed, in Betterley Risk Consultants' review of major RMIS vendors, we have a rating category called "User Friendly," but it is based on the user's perceptions and experiences, as well as observed demonstrations of the software in relation to others.

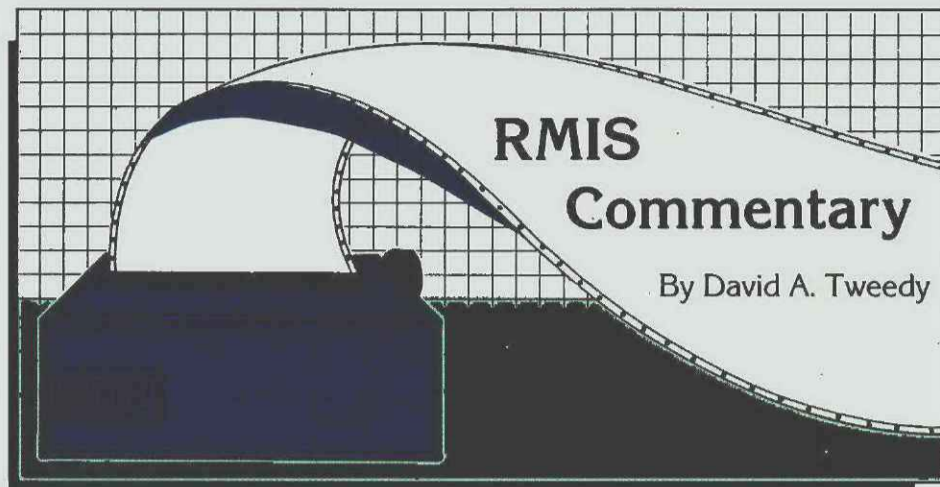
Mr. Hoehne says a better term would be "user centered/focused." That means that the entire focus of the system and its operation is centered around the user and how he thinks and operates.

In other words, the end-user can focus his thoughts on *what* he wants to accomplish and not on *how* to accomplish it. It also means that the programmer of the software considered what the end-user wanted and needed, rather than what the computer required.

From here, we should move on to another frequently used and abused term, "interface."

By definition, an interface is a point of connection between two objects. With computers, this is the connection made between the user and the software. This is where user friendliness becomes important, because without an effective interface a well-designed system with excellent features loses its ability to provide benefits to the end user, especially when that person is not computer literate.

Traditional user interfaces had been



based on grids of rows and columns with letters, numbers and symbols occupying spots within this grid. Programmers were limited to this format in displaying the information to the user.

However, advances in technology have resulted in graphical user interface.

According to Mr. Hoehne, a true graphical user interface "is not constrained by the traditional row-and-column grid approach. With the advent of GUIs, the concept of user-friendly has become more prevalent as developers can tailor the interface to match a user's

syntax, such as would be found when working in a disk operating system (DOS) environment. An example would be an icon that looks like a printer that the user clicks with a mouse, rather than pressing a function key. Function keys are not intuitively obvious.

Mr. Hoehne describes several ways to determine how user-friendly a system or software package is:

- Does the system/software package use icons to provide aid to the end user? A picture of a printer that is selected with a pointing device (like a mouse) is more intuitive than hitting the F8 function key to print a file.

**How do we define user friendliness? Unfortunately, this is very subjective and should not be taken at face value. Just like all insurance programs are 'extremely competitive and comprehensive,' so all risk management information systems and software packages claim to be user friendly.**

expectations."

Such was the history with Apple as, in 1984, the Macintosh computer system was introduced, bringing GUI interfaces into the limelight.

Unfortunately, no standards for user friendliness have been established by the computer industry.

Mr. Hoehne notes, "Therefore, software firms can call virtually any system 'user friendly' and get away with it."

Returning to the intent of user friendliness, Mr. Hoehne uses another term of importance: intuitive processing.

This is a concept in which the user can "logically approach a computer screen and intuitively reason what tasks can be performed or how to perform them. If the user must look to a book or a code sheet, he is spending time figuring out how to perform the task, and not performing the task itself. By definition, this reduces productivity," he says.

What are good examples of intuitive processing? For anyone familiar with either the Macintosh operating system or the Microsoft Windows programs, the answer is obvious. These two environments utilize icons of tasks, rather than cumbersome computer

- Are all available system functions visible at all times? Commands that are not available should be highlighted in such a fashion that the user knows the function cannot be performed. This is another advantage of the Macintosh or Windows environment. The commands are always visually available.

- A system should only present the user with functions, data fields, layouts, etc., that apply to what the user needs to do.

For example, says Mr. Hoehne, "When entering a claim, if you select a claim to be medical only, you should only have the fields applying to a medical-only claim on the screen and not the fields which apply to a lost-time claim."

Input screens that collect all types of information, rather than specific information, are not user friendly, confusing the issue even further.

- Does the system provide a clear indication of all the tasks you could perform by looking at the screen information?

Mr. Hoehne comments: "Can you execute these tasks directly from the screen, or do you have to exit the area and access another area of the system? Is it intuitively obvious how to access

the other parts of the system?"

Obvious areas to look at include the ability to:

- ✓ Set reserves from the check input screen.
- ✓ Add a new service provider from any screen in the system.
- ✓ Access the diary system from any point in the system.
- ✓ Access a claim record when looking at a diary event.
- ✓ Print what appears on the screen, even if the layout is larger than the screen itself.
- ✓ Examine a records detail from a display list (body part, cause code, provider list) when entering information.

This really gets to the logic of the system design. Another way for characterizing this logic are features known as navigation, pop-up screens and pull-down menus.

Navigation is the logical ability of a user to work his way through the system without having to check a user manual. The screen and the commands listed give enough information for even the novice user to go through the process of, for example, entering claim information, setting up a reserve, paying a provider, changing a reserve or processing a subrogation claim.

The pop-up screen and pull-down menus are devices, using the mouse or keyboard, to access additional information while you are going through a series of screens. For example, when entering claim information, you may not know the different types of injury codes that are available to you without looking at a manual.

A pop-up screen would show you a separate directory of all body parts that are logical to use in this particular claim.

The pull-down menu is another device that promotes efficiency and ease of use. When paying for a claim, for example, a pull-down menu could identify the type of payment: is it medical only or is it lost time; is it an expense-related check, does it go to a specific provider?

In my next column, I will discuss how the system user can quantify how user-friendly the system really is by comparing features and implementation. ■

David A. Tweedy is a senior consultant for Betterley Risk Consultants Inc. in Worcester, Mass. He is the editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing



major risk management information systems and vendors. Mr. Tweedy's column on risk management information systems appears the third Monday of the month.

# ASK A BENEFITS MANAGER

## Defined benefit plans are costly to administer

**Q**

**There has been much discussion regarding the increased difficulty of administering defined benefit pension plans. Should employers consider terminating these plans to save costs?**

**A**

You are not alone in asking this question. Indeed, many benefit managers have scuttled their defined benefit plans. Some survey data and general statistics bear this out.

A recent survey, "Forecast 2000—The Actuarial Profession in North America," by the American Academy of Actuaries found that 27% of survey respondents cited government regulations—specifically the Tax Reform Act of 1986—as the primary reason for terminating their defined benefit plan.

The next most common reasons for plan terminations were "business considerations"—financial difficulty, bankruptcy, downsizing—and "plan too costly."

The Internal Revenue Service provides statistics on plan terminations and new plans. The IRS found that for the year ended Sept. 30, 1991, there were 10,064 defined benefit plans terminated and 370 adopted. During the same period, there were 11,629 defined contribution plans terminated and 11,863 adopted.

This increase in the number of defined contribution plans is also evidenced in a Buck Consultants survey of 401(k) savings plans (*BI*, Sept. 23, 1991), which is the most popular form of defined contribution plan used today. Some 36% of surveyed employers offered 401(k) plans in 1984. The number grew to 72% in 1989, 91% in 1991, and, according to Buck's most recent survey, 93% today (see story, page 3).

Another study, examining administrative costs, was conducted by Hay Huggins Co. Inc. for the Pension Benefit Guaranty Corp. (*BI*, Dec. 31, 1990). The study focused on the change in defined benefit pension plan administrative costs (largely affected by legislative and regulatory changes) from 1981 to 1991.

The Hay Huggins study found that on a percentage basis, plan costs increased approximately the same for the smallest plans (15 or fewer participants) and the largest plans (10,000 or more participants), while increases in plan costs for plans with 75 to 500 participants were considerably less, but were still significant. However, this study shows a significant disparity in the administrative costs of the smallest plans (\$455 per participant) compared to the largest plans (\$54 per participant).

The study estimated the 1991 administrative expenses of a defined contribution plan at \$227 per participant for a 15-member plan and \$39 for a 10,000 member plan, which is 50% and 38% less, respectively, than for defined benefit plan expenses.

The Hay Huggins study also summarized the legislative changes that affected pensions plans. The amount of pension-related legislation, not to mention its complexity, is staggering. But what really stood out was the increase in PBGC premium costs, which have risen 1,900% from 1978 to 1991.

In 1978, the annual premium for a single employer plan was \$1 per participant. This has increased to \$19 in 1992 for a fully funded plan and can be as high as \$72 per participant for underfunded plans. Based on the current financial situation of the PBGC, I would not be surprised to see further increases in this premium.

In response to the increased costs and the many changes required by law, there are various options you can consider. However, you first need to consider your overall retirement strategy.

You need to determine the level of retirement income your organization wants to deliver to the full-career or long-service employee and which type of plan or plans can best deliver the retirement income.

In making these decisions, you need to assess your competition with regard to the level of retirement income their plans deliver plus the type of plans they offer their employees.

At Continental Bank, we determined that a defined benefit plan in conjunction with our defined contribution plans—a 401(k) and an employee stock ownership plan—was an integral part of our strategy for providing a competitive employee benefits program and delivering an appropriate level of retirement income.

However, we also took another look at the design of Continental Bank's defined benefit plan.

In reviewing the revised requirements for Social Security integration as outlined by the Tax Reform Act of 1986 and subsequent regulations, we decided that it would be best to eliminate the Social Security offset in the plan. This is due to the complexity of the changes and the difficulty of communicating such changes, plus the anticipation that there would be more required changes in the future in how defined benefit plans integrated with Social Security.

Since our objective was to make the change both benefit- and cost-neutral, other elements of the plan were modified. The percent per year of service was reduced and the definition of compensation was liberalized to recognize bonuses, overtime and shift differential.

If you decide that your defined benefit plan is too expensive to maintain, you need to carefully assess the impact of a decision to terminate a plan. Some items to consider include the following:

- Expenses related to plan termination.

Terminating a plan results in all plan participants being immediately vested in their accrued benefits. If not adequately funded, funds will be required to meet all obligations including the obligation of additional vested plan participants.

Other expenses related to terminating a plan include legal fees, actuarial fees and possibly consulting fees.

- Employee relations issues.

To state the obvious, employees—particularly those approaching retirement age—will be very apprehensive about such a change. There have been numerous surveys in the past few years about employee perceptions of employee benefit programs. Responses to those surveys generally agree as to which benefits are the most important: The top two are always medical benefits and pensions.

If the eliminated plan is not replaced in some fashion, employees will be very disgruntled. You need to assess how the elimination of the plan will affect your organization's ability to retain current employees and attract future employees.

- Other plan changes.

If the defined benefit plan is eliminated, you may consider replacing it with a defined contribution plan, or if a defined contribution plan currently exists, enhancing the existing defined contribution plan. In either situation expenses will be incurred for design or redesign, implementation and communication of the plan.

The decision to terminate a defined benefit pension plan in favor of a defined contribution pension plan is a significant one. If the reason for such a decision focuses on administrative costs, you need to keep in mind that there are administrative costs associated with defined contribution plans.

Some common expenses of both defined benefit and defined contribution plans include investment management fees, trust fees, legal fees and

non-discrimination testing. Both types of plans require investment managers to invest the funds and both require a trust to hold the funds. Of course, there are legal fees in order to ensure that the plans are in compliance with the many applicable laws and regulations.

While changes in the laws and regulations affect both defined benefit and defined contribution plans, it appears that defined benefit plans have been affected the most. And, while both defined benefit and defined contribution plans require non-discrimination testing, it has been my experience that the testing for defined contribution plans is more complicated and requires more data collection and analysis.

The major differences in plan expenses are the actuarial expenses, benefit calculations and PBGC premiums required of defined benefit plans compared with record keeping fees and plan loan administration costs of defined contribution plans.

With regard to the actuarial expenses, there are expenses related to the organization gathering the appropriate data to be supplied to the plan actuary in addition to the charges for the actuarial analysis.

Benefit calculations must be performed for those individuals retiring in addition to those terminating their employment with a vested benefit.

Finally, the organization must pay the PBGC premium, which is currently \$19 per plan participant if the plan is fully funded. This amount can be nearly four times as great if the plan is not fully funded.

On the defined contribution plan side, there are recordkeeping expenses that are incurred for maintaining individual employee account information. This involves providing a record keeper with the employee information regarding plan participation.

Another element of cost relates to the administration of plan loans. Most savings plans allow plan participants to borrow from their accounts within certain limits. The additional expense of this element had resulted in some plans charging employees an administrative fee for taking out loans. After considering many factors, it appears that the administrative costs are greater for defined benefit plans compared with defined contribution plans.

The increasing cost of plan administration may be enough to cause us to seriously consider a change. However, we need to consider the cost of making such a change. ■

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*Ask A Benefit Manager, Ask A Risk Manager, Ask A Benefit Actuary and Ask A Casualty Actuary answer written questions from readers on risk and benefits management issues and actuarial problems.*

*This month's column on employee benefit management issues is written by Dennis J. Nirtaut, manager of employee benefits at Continental Bank Corp. in Chicago. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers questions on risk management issues. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Pacific Actuarial Resources (PAR)*



**Mr. Nirtaut**

*Excellence in Ashland, Ore., answers actuarial questions in the casualty field.*

*Mr. Nirtaut's and Ms. Werner's columns appear on the second Monday of alternate months. Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month.*

*Mr. Nirtaut's next column will appear in November. Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.*

## 401(k) survey

*Continued from page 3*

has increased as workers, especially the baby boom generation, become older and more concerned about whether they will have enough savings at retirement, Mr. Rumack explained.

"The baby boomers are aging. They know they will need more savings to have an adequate income at retirement," he said.

According to the survey, employee participation in 401(k) plans is inversely related to company size.

For example, among employers with fewer than 1,000 employees, 78% of eligible employees participate in 401(k) plans, compared with 72.3% among firms with between 1,001 and 5,000 employees and 71.7% among companies with more than 5,000 employees.

Participation rates may be slightly higher among smaller firms because employees at these firms tend to be concentrated in one location, making it easier for the employer to communicate the 401(k) plan. At a bigger company, employees often are more spread out, Mr. Rumack said.

In addition, a 401(k) plan may be the only pension program a small company offers, while larger firms are more likely to provide multiple pension plans to their workers.

"At larger firms, the employee may say, 'I can wait. I'm covered by another plan.' That is less likely to be the case at a smaller firm," Mr. Rumack said.

Most employers—85.9%—match employee salary deferrals, the survey found.

Among those employers, 57.9% contribute 26 cents to 50 cents for every dollar an employee contributes, 7.2% contribute between 51 cents and 75 cents, and 18.1% contribute 76 cents to \$1. Only 1.6% of employers say they contribute more than \$1 for each dollar deferred by employees.

The survey found that only 15.2% of employers match 25% or less of employee contributions.

Most 401(k) plan contributions by employers—79%—are in cash, while 14% of employers contribute company stock and 6% use a combination of cash and company stock. One percent of employers use another method.

More employers also are allowing employees to take loans from their 401(k) plans, the survey shows. For example, 74% of employers say their 401(k) plans offer a loan feature, up from 72% in 1990 and 67% in 1989. Just 39% of employers with 401(k) plans in 1984 offered a loan feature.

Employers have added loan features to their 401(k) plans as improvements in record keeping programs have taken some of the hassle out of administering loans, Mr. Rumack said.

At the same time, adding a loan provision helps to boost employee participation because employees know they will have access to their contributions, Mr. Rumack said.

"Loans are a way of encouraging more participation. Just knowing that the money is available, even if an employee never intends to take a loan, is important," he said.

Loan provisions became especially important after the enactment of the Tax Reform Act of 1986. That law included provisions that have made it more difficult and expensive—by adding special taxes—for employees to take in-service hardship withdrawals from 401(k) plans.

Employers use a variety of formulas to determine the interest rate they will charge on 401(k) plan loans. For example, 35% of the employers use the prime rate plus one percentage point, 17.5% use the prime rate and 14.3% use the prevailing lending rate charged by local banks.

Other formulas include the prime rate plus two percentage points, the interest rate being earned on guaranteed investment contracts held by the plan, and the rate charged by the company credit union.

Forty-eight percent of employers offer four or five investment options for 401(k) plan participants, while 25% offer three investment options, 15% offer between six and 10 options and 10% offer one or two options. One percent of respondents offer more than 10 investment options. Figures do not total 100% due to

### Baby boomers know they'll need more savings for retirement income, says Mr. Rumack.

rounding.

Under proposed Labor Department regulations, known as the 401(c) rules, employers will have to offer at least three investment options—excluding company stock—to avoid fiduciary liability for employees' investment decisions.

Even though the rules have not been finalized, employers are increasing the number of investment options so they will be in compliance when the 401(c) rules take effect, Mr. Rumack said.

Employers are most likely to offer stock funds as an investment option, the survey found. For example, 63.6% of employers offer a managed stock fund, in which contributions are invested in stock believed to have growth potential. In addition, 49.6% of employers offer an index stock fund, in which contributions are invested in common stock of larger firms that are listed in an index, like the Standard & Poor's 500.

Just over 47% of employers offer a balanced fund—a highly diversified portfolio containing many different types of investments, while more than 47% offer a money market fund.

Other investment options and the percentage of employers offering those options in their 401(k) plans include: GICs, offered by 44.4%; company stock 32.1%; managed bond fund—a

fund that comprises high quality bonds—27.8%; and U.S. government securities, 21.3%.

Some 28.7% of employers last year used benefit consulting firms to handle 401(k) plan record keeping, while 20% used a trust company or bank. In addition, 15.1% used a specialized record keeping firm, 14.1% of employers use internal staff, 13.6% use an investment firm, and 10.7% have an insurance company do their record keeping. And, 15% of employers used other vendors. The percentages exceed 100% because some respondents used more than one record keeper during the year.

A copy of "401(k) Plans—Past, Present and Future" is available for \$75 from Carolee Martin, Buck Consultants Inc., 500 Plaza Drive, Secaucus, N.J. 07096; 201-902-2555.



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# Marine standards

*Continued from page 3*  
ing it hard to make a profit in the recession, but this should not deter insurers from imposing higher rates and deductibles on shipping firms with poor loss experience, he said.

"Survival for the marine insurance industry means that my friend the shipowner must pay more for less coverage," Mr. Anonsen said at the International Union of Marine Insurance annual conference, held here Sept. 6-10.

All shipowners will have to pay more for coverage, but substandard owners should receive the largest rate hikes, he argued.

And, marine insurers should not be concerned whether a drive for higher rates will force poor-quality shipowners out of business, Mr. Anonsen contends.

"If insurance costs help to drive substandard tonnage and substandard operators out of the market, this will benefit quality shipowners by hastening the return of a viable freight market," he said. By taking this stand, underwriters will be able to justify their tough line on rates and conditions, he said.

But, Mr. Anonsen added, underwriters will have to refine their methods of evaluating good and bad shipowners.

Traditionally, underwriters assess the quality of shipowners by considering an owner's loss statistics, Mr. Anonsen said. "In this context, the only possible definition of a quality shipowner is that his fleet produces a profit for underwriters. This is obviously a very selfish and short-sighted point of view," he said.

In addition to analyzing loss history, underwriters should seek to assess the technical standards of a shipowner's vessels, the standards of its crew and the standards of the owner's management, Mr. Anonsen said.

Underwriters will continue to rely on marine classification societies to obtain information on specific vessels, he said. But increasingly, underwriters will also carry out their own surveys of vessels, he added.

Evaluating crew standards is more difficult, Mr. Anonsen said.

"Control of crew qualifications is the responsibility of the flag state" that registers the vessel, he said. "Probably the only avenue available to us is to try to evaluate the practice of the various flag states and price-differentiate accordingly."

Evaluating management is also difficult and sensitive, Mr. Anonsen said.

"The only way we can obtain better insight into management is by approaching shipowners in a spirit of cooperation."

Quality shipowners will welcome this approach, Mr. Anonsen said. The best gauge of a shipowner's quality is to see how it cooperates with underwriters in the long term, he said.

In return for this greater cooperation and the payment of higher rates and deductibles, marine, shipowners "will expect better service generally and, in particular, better support in respect of product development, contingency planning and crisis management, claims handling and claims analysis, and loss prevention," Mr. Anonsen said.

To achieve these aims, underwriters and quality shipowners should establish more effective channels of communication, he said.

"On this basis there might just

be a chance that both shipowners and underwriters can keep their jobs and march hand in hand into the sunrise that heralds the next market upturn," he said.

A shipping executive says that underwriters must take into account the good risks along with the bad when reviewing rates.

Quality shipowners would welcome extra attention to risks as long as the underwriters are careful to differentiate on rates between good and bad shipowners, says Gregory Hadjieleftheriadis, vp of Eletson Corp. in Athens, Greece.

In addition to focusing on the

factors that make up a bad risk, underwriters must take into account the factors behind good risks, he said. These include up-to-date management systems on board vessels and ashore, high standards of training and high levels of crew continuity.

"It requires you as underwriters to take the time and get to know the owners and the companies of the fleets which you insure. It means visiting us," Mr. Hadjieleftheriadis said.

And once they have this added insight, underwriters should stop charging good-quality underwriters high rates to pay for

the losses sustained by poor-quality operators, he said.

"I suspect that the rates we pay are higher because you also insure the substandard shipowners. This is simply wrong. Why force good operators to subsidize the bad risks?" Mr. Hadjieleftheriadis said.

Shipping regulators also have a role to play in reducing marine losses, he said.

But shipowners have long resisted regulation. "This is because we work in one of the oldest professions in the world—perhaps older than the one which usually comes to

mind, and that probably started down in the port," quipped Mr. Hadjieleftheriadis.

The shipping industry should redress the lack of regulation by imposing international regulations similar to those in force in the aviation industry, he said.

Shipping companies should be required to obtain a license to operate in all the territories that their vessels visit, he said.

"The place to begin to prevent serious accidents is at the beginning, by preventing marginal operators from being in the business in the first place," Mr. Hadjieleftheriadis said. ■

# THE HOM



# OLD PROSON

# Italian loss control under the gun

## Rise in highway robberies puts pressure on cargo owners

By GAVIN SOUTER

BERN, Switzerland—Cargo owners, trucking companies and marine insurers should take several steps to reduce increasing losses from daylight highway robberies by the Mafia and other armed gangs in Italy,



an Italian insurer says.

Between 1984 and 1989, armed robberies in Italy increased 50% to 54,699, said Claudio Campana, a director of Assitalia Le Assicurazioni d'Italia S.p.A. in Rome.

"We think that the relative situation in 1991 is even worse," Mr. Campana said. Armed robberies of trucks loaded with goods increased even more dra-

matically last year to 6,000 from only 150 in 1983, he said.

Mr. Campana attributes the growth in crime to more people becoming involved in "Mafia-related" activities during a period of rising unemployment.

"It is crucial for insurers to find practical solutions to these problems, which involve huge costs in terms of losses for all insurance companies," Mr. Cam-

pana said at the International Union of Marine Insurance conference.

When deciding what action to take, insurers should consider what they are up against, he said. Data from the Italian Ministry of the Interior show that:

- 73% of the armed robberies occur between 6 a.m. and 6 p.m.

- Target goods are clothes, shoes, pharmaceuticals, stereo components, food and parcel loads.

Armed robbery reports can be categorized by three main groups: those for robberies committed with the aid of someone inside the company; those for robberies committed without inside help; and falsified reports filed by a company that intends to make a phony insurance claim.

In most robberies, a truck is forced to stop at gunpoint, it is stopped by a bogus policeman or the truck is parked and the driver is asleep when the robber approaches.

"At that time, the thieves break the side window and, sometimes using soporific substances or weapons, make the robbery," Mr. Campana said.

Owners, carriers and insurers of goods transported by truck should work to reduce the losses, he said.

Owners should allow their goods to be transported only by registered, well-known carriers; avoid intermediaries; insist on armed guards and other security systems for high-value goods; use anonymous packaging; and mark the goods with code numbers so they can be recognized if they are stolen and resold, he said.

Carriers should hire only people with good references; maintain secrecy about the value of goods being transported; avoid subcontracting; limit stops; install alarm systems; use two drivers for long trips; and limit advertising on the trucks, Mr. Campana said.

Before writing a policy, insurers should collect detailed information on a prospective client, like goods transported, carriers

**'It is crucial for insurers to find practical solutions,' to rising theft claims, says Mr. Campana.**

used and the owners of the goods.

Insurers should demand employees of the carrier and the cargo owner cooperate fully with the police in the event of a robbery, Mr. Campana said.

Insurers also should help each other to reduce losses, he said.

"It is essential, as a loss-prevention activity, that all insurance companies working in the national territory gather all data available in a data bank where all associated companies can get the information necessary to underwrite a new contract or before settlement of a theft or robbery claim," Mr. Campana said.

Fundamental rules govern Assitalia's underwriting of road transportation risks. Mr. Campana pointed out. Those include:

- Under most circumstance, the transportation of tobacco, pharmaceuticals or clothes is not insurable.

- All advertising on trucks must be deleted so thieves do not know what the cargo is.

- A truck may stop only at areas indicated in the policy.

- A truck must have an alarm system approved by the Assn. of Italian Insurance Cos.

- Insurers write only minimal coverage unless cargo is transported during the day with an armed police escort.

- High-risk goods should travel along alternative routes rather than direct and predictable routes.

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# A N E W T E A M

# U.S. marine insurers grab chance for a comeback

By GAVIN SOUTER

BERN, Switzerland—Higher rates and less capacity in the international marine insurance market make 1992 a good year for U.S. insurers to reclaim lost business, say two U.S. marine insurers that are trying to do just that.

Ocean hull insurance will be the first area of expansion for U.S. insurers, they say. And opportunities in marine liability and energy insurance may

soon follow.

Marine Office of America Corp. will increase its capacity 50% to \$7.5 million for any one hull, while GRE Insurance Group units will offer direct coverage for the first time up to \$3 million per hull (BI, Sept. 14).

"We believe that there are real opportunities now in the ocean hull area, and we are looking to expand our writing there," said Harry Keefe, a vp with GRE Insurance Group of New York.

Units of GRE Insurance Group, which is the U.S. subsidiary of U.K. insurer Guardian Royal Exchange Assurance

P.L.C., will continue to underwrite as a member of the American Hull Insurance Syndicate, but it will now also offer capacity on a direct basis.

"We will start off writing modest following lines," said Mr. Keefe. "The contraction in the market and the increases we are seeing in rates mean there are good opportunities in the market at the moment."

The U.S. market now has a central role to play in the marine hull, energy, cargo and liability market, agreed Thomas J. Prendergast, chairman and president of MOAC, a Continental Corp.

unit based in Cranbury, N.J.

"For a long period of time now, a large part of the (marine) account has been lost to foreign markets. Now we see an opportunity to repatriate a sizable part of that business," he said in an interview during the recent In-

Prendergast said.

"There are serious problems in London. London plays a very vital role, but it is still going through a rough time at the moment," he said, referring to the reduction in capacity in the London market over the past year.

**'For a long period of time now, a large part of the (marine) account has been lost to foreign markets. Now we see an opportunity to repatriate a sizable part of that business,' says Mr. Prendergast of the Marine Office of America Corp.**

ternational Union of Marine Insurance conference here.

Extensive resources and strong balance sheets make many U.S. marine insurers attractive compared with other markets, Mr.

In past years, U.S. insurers have lost protection and indemnity business to other markets, Mr. Prendergast said.

"We tried to price it at adequate rates, and other markets thought it could be done much cheaper. They seem to have learned that they were wrong and that business is beginning to come back to us now," he said.

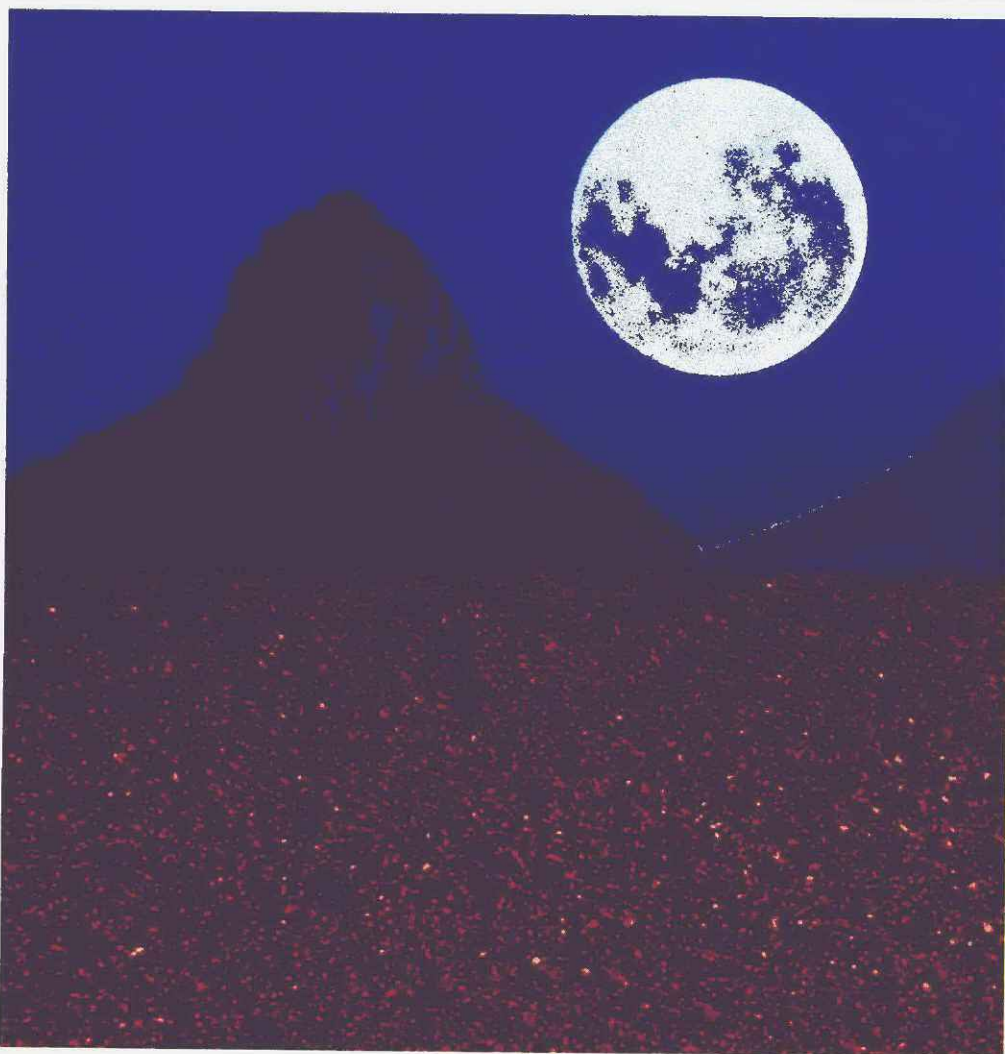
MOAC is also considering increasing its capacity for energy risks, he said. It now writes a net line in excess of \$30 million for some marine risks, Mr. Prendergast said.

U.S. insurers may not find similar opportunities in the cargo market soon because cargo capacity remains plentiful, he said.

The underwriters will not sacrifice profits to attract new business, said Mr. Prendergast. "With current U.S. interest rates, it would be a fool's errand other than to aim for an underwriting profit."

Worldwide, underwriters are resolved to raise hull rates further at the next renewal, Mr. Prendergast said.

"The results of the past decade have been, to a large extent, diabolical, and shareholders and names won't put up with that any longer," he said. ■



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## IUMI reports 460 attend conference

BERN, Switzerland—Despite the contraction in the marine insurance market, attendance at the 1992 International Union of Marine Insurance conference fell only slightly from last year's level.

Some 460 people from 47 countries attended the conference here Sept. 6-10, compared with 468 people from 43 countries in 1991.

At the conference, Alexander von Ziegler, a lawyer with Schellenberg & Haissly in Zurich, Switzerland, was elected general secretary. Mr. Ziegler takes over from Emanuel Burckhardt, who steps down as general secretary after seven years.

Next year's conference will be held in Stockholm, Sweden, Sept. 19-23. Toronto will be the site in 1994 and Tokyo in 1995. For more information, contact Alexander von Ziegler at Schellenberg & Haissly, Lowenstrasse 19, P.O. Box 6333, Zurich, Switzerland.

—By Gavin Souter



# Hull rate hikes to hit marine policyholders

But rates are still too low, insurers say

By GAVIN SOUTER

**BERN**, Switzerland—Marine underwriters' determination to increase rates means that policyholders should expect to pay more for less coverage at the next renewal, insurers say.

Marine insurance rates are heading upward, but they still have a way to go before underwriters will be satisfied with their levels, insurers say.

Loss statistics show that claims are getting larger and ships are getting older, so underwriters will have to differentiate the quality of policyholders, according to insurers.

Hull underwriters spoke of recent rate hikes of at least 25% and the necessity for further hikes at the International Union of Marine Insurance conference held here Sept. 6-10.

In cash terms, including increased rates and restructured programs, underwriters have seen increases of 60% over the past year, said Thomas J. Prendergast, chairman and president

**Unless rates are increased, 'we will be fighting a losing battle,' predicts Mr. Wahllof.**

of Marine Office of America Corp., a subsidiary of Continental Corp. in Cranbury, N.J.

"But that still is not enough. A year ago the account was 100% lower than where it needed to be," he said.

Marine insurers throughout the world at the next renewal are determined to increase existing rates at least 25% to bring rates up to adequate levels, according to Mr. Prendergast.

"Unless we bring rates back to an acceptable level, including an allocation for catastrophes, and until we are cost-effective in controlling our cash flow, we will be fighting a losing battle, agreed Bo Wahllof, IUMI president.

If marine insurers fail to take such action, investors and shareholders will shift their funds away from marine insurance to more profitable areas, he said.

"But I don't think that will happen, because I sense a determination among us to put things right," Mr. Wahllof said.

Rates are improving, but they will need to increase further before underwriters can meet policyholders' requests for wider differentiation between high quality and poor quality owners, said Tony Nunn, chairman of the IUMI Ocean Hull Committee.

"We are seeing improvements, but they are not yet at the levels where we can offer reductions to the top operators," he said.

Underwriters must have the resolve to make a profit, Mr. Nunn said. "We must make sure that over the next three years we at least provide a reasonable return to our shareholders and names," he said.

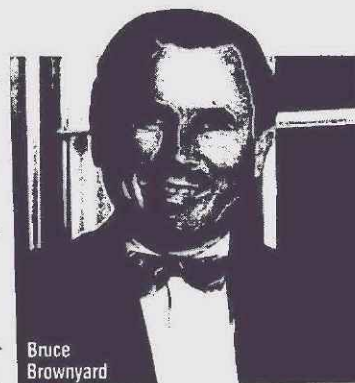
The Institute of London Underwriters' statistics on the aging world fleet and hull losses demonstrate the need for more

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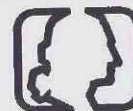


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## Marine rates

Continued from previous page  
rate increases, Mr. Nunn said.

The number of old vessels being used has increased drastically over the past six years, he said. In 1991, 44% of the world tonnage afloat was more than 14 years old, compared with 24% in 1985, Mr. Nunn said.

Total losses also are moving up toward the high levels of the mid-1980s, he said.

There were 182 total losses in 1991, compared with 139 in 1990, Mr. Nunn said.

The estimated cost of total losses also is rising, according to the ILU statistics. In 1991, the total losses cost \$757 million, compared with \$678 million in 1990.

Energy rates, meanwhile, have increased over the past year, said MOAC's Mr. Prendergast. Rates have increased between 20% and 25%, but restructuring of programs has meant that underwriters are receiving approximately 30% to 35% more cash than a year ago, he said.

But energy underwriters are under pressure not to increase rates, said Gale Coles, underwriter for Lloyd's of London syndicate 573, managed by Cater Allen Syndicate Management.

During the three years following Hurricane Betsy in 1966, the insurance industry in general trebled its rates. But for a variety of reasons, that action has not been possible over the past few years, he said.

Some clients in the energy market are urging that increases be spread over several years, while other clients are opting out of insurance and are self-insuring, Mr. Coles said.

Members agents at Lloyd's also are stalling the upturn in rates, he said. "We have the members agents at Lloyd's who help provide the capital base at Lloyd's (steering) capacity toward new, young syndicates with no track

record. This is delaying your trained leaders in turning the market fast, which surely has to happen," Mr. Coles said.

Insurers also are now facing larger claims due to huge awards by U.S. courts, he said.

But, some cargo underwriters are beginning to produce underwriting profits now, after several years of losses, said Roderic Wildish, chairman of the IUMI Cargo Committee.

This is partially due to more discriminating underwriting by cargo insurers, he said.

"There are many signs that underwriters are really doing their homework," Mr. Wildish said.

For example, cargo underwriters are paying more attention to marine cargo risks on land and are seeing that the risks are greater than they previously thought. Consequently, the underwriters are charging higher rates for land risks, he said.

No worldwide statistics exist for cargo risks, because many of the risks are retained locally. However, a look at the Australian, British and U.S. markets gives a picture of what is happening in cargo insurance, Mr. Wildish said.

Rate reductions in Australia are slowing down and rate increases are being obtained where there has been poor claims experience, he said.

"Insurers in Australia are trying to underwrite in a way that will produce an underwriting profit," Mr. Wildish said.

A strong contraction in capacity has occurred in Britain during the past two years, and underwriters have reduced the number of binding authorities and brokers' coverages to gain more control of their underwriting accounts, he said.

"In the U.S., we have seen some stabilization of the downward spiral in rates, and organizations are focusing their attention on better underwriting," Mr. Wildish said.

## Machinery claims a growing problem

By GAVIN SOUTER

BERN, Switzerland—Marine machinery damage claims are an increasing problem for insurers, but underwriters are doing little to curb them, experts agree.

Difficulties range from obtaining new spare parts for old ships to instructing multilingual crews, they say.

Underwriters need to unite with other members of the shipping industry to tighten up the management control of vessels and reduce machinery damage claims, they said during a workshop at the International Union of Marine Insurance annual conference, held here Sept. 6-10.

Underwriters are too complacent about machinery damage risks and cover vessels that are often poorly maintained, said William R. Scarbrough, chairman of the American Hull Insurance Syndicate.

"I have sat on various marine committees in the United States and have listened to the owners tell horror stories about vessels where little maintenance is done and wonder aloud how insurance is granted on these poorly main-

tained vessels to keep them on the high seas," he said.

Repair costs for machinery on vessels have risen an average of 5% in each of the past five years, Mr. Scarbrough said.

Reasons for rising claims include: aging fleets with aging machinery; competitive pressures among shipowners that cause maintenance to be deferred; poor-quality crews; and a diminishing number of repair facilities, he said.

In the United States, machinery claims account for up to 25% of the cost of all hull claims.

The cost of machinery damage claims has also increased, said Michael Ellis, general manager of the Salvage Assn. in London.

For example, in 1982 the average cost of main engine diesel losses was \$60,000, and steam turbine and boiler losses cost \$130,000. By 1991 these costs had shot up 67% for main engine diesel losses to \$110,000 and 169% for steam turbine and boiler losses to \$350,000, he said.

"Underwriters should consider machinery aspects very carefully before putting down their line," he said.

Aging vessels are one of the main concerns that underwriters should consider, according to

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Mr. Ellis.

"Old vessels have old machinery, and the evidence is clear that there is now considerable difficulty in obtaining many major items of spares," he said.

In some cases, replacement parts have to be made to order, and ships can often be laid up awaiting repairs for more than six months, Mr. Ellis said. Other times, machinery on aging vessels is obsolete and must be replaced rather than repaired.

Replacing old machinery with new machinery on an old vessel can be more expensive than repairing higher value machinery on newer vessels, Mr. Ellis said.

For vessels built in what was then Eastern Europe, the problems can be even worse. Many of these ships were built with inferior materials.

"Many more vessels built in these countries are now being insured in traditional markets, and underwriters should consider the potential implications of machinery claims," Mr. Ellis said.

Conversely, new Western-built vessels are so advanced that only small crews are needed. But this means that fewer people will be on board to carry out basic maintenance duties. And generally, the quality of engine room crews has deteriorated in recent years, Mr. Ellis said.

"Sometimes even in large ships... there may be as few as two qualified engineers, and the chief (engineer) is very much a watchkeeper," he said.

Added to this is the problem of communication among a crew made up of several nationalities, Mr. Ellis said.

On one vessel the Salvage Assn. visited "both our surveyor and the very competent owner's superintendent had difficulty conversing with the chief engineer," he said. "Repeated requests to see the manufacturer's manual for the broken auxiliary engine brought instead, an albeit welcome, mug of coffee."

Crews are also often changed overnight leaving the new members no time to familiarize themselves with the equipment, Mr. Ellis said. "It isn't like driving away an Avis rental car, but it sometimes is treated as such," he said.

Machinery and crew problems can cost underwriters dearly. A string of machinery claims can be just as expensive as one major grounding or collision, said Mr. Ellis.

All participants in the shipping industry should act to reduce the number of machinery damage claims, said James L. Dolan, senior vp of the American Bureau of Shipping.

Owners must perform routine maintenance, keep accurate records, have a planned maintenance scheme, and ensure that crews are qualified to run the vessels they are on, he said.

Classification societies must carry out detailed machinery surveys and encourage owners to have planned maintenance systems, Mr. Dolan said.

Underwriters should review the coverage they grant for machinery risks and impose new clauses where necessary, he said.

And nations that register and regulate ships should ensure crews are qualified, Mr. Dolan said.

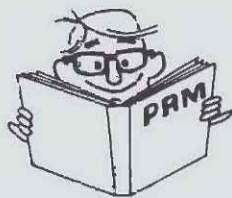
"If we don't all do our respective jobs, what we are going to see is aging hulls, neglect, inexperienced crews, poor ship management and a market providing no real profit," he said. This

would be coupled with higher repair costs, a reduction both in repair facilities and in the availability of spare parts, he said.

Underwriters in the German market have already acted to reduce the number of machinery damage claims, according to Hans-Joachim Enge, chairman of the hull committee of the German Marine Insurance Assn.

"In our market, claims for machinery damages count—in the average of the last three years—for 39% of our total partial damages, with an increasing tendency," Mr. Enge said. In light of this, German insurers have applied additional deductibles on ships that are more than four years old, he said.

The cutoff period is set for four years because claims increase when ships are prepared for their four-year classification renewal, Mr. Enge said. ■



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## Market outlook

*Continued from page 1*

ance Co. in Princeton, N.J. "Something has got to happen.

"The market is definitely going to react to Andrew sooner than expected," he predicted, without specifying a time frame. "It's going to make a tougher market for property catastrophe coverage and will tighten retrocessional coverage."

American Re itself is not a traditional cat cover market, he noted, explaining that the reinsurer writes cat covers on a finite risk basis.

While the sun beamed down on Monaco for most of the meeting, held Sept. 6-11, the mood was gray in the cafes, bars, lobbies and suites where business was discussed. Not many brought good news to the gathering, and few were cheered by what they heard. Loss reports from Andrew streamed in each day, while the latest debacles in Scandinavia were chronicled daily in the European newspapers.

The mood could become even darker before year-end renewals begin in earnest next month. Only days after the Rendez-Vous concluded, Hurricane Iniki lashed the Hawaiian island of Kauai, causing extensive damage (see story, page 1). And, some executives say they expect more reinsurers or insurers to go broke or withdraw from the market in the coming months.

The uncertainty in the market is sure to delay year-end reinsurance renewals, which in turn could delay renewal of primary coverages, said Robert F. O'Leary, president and chief operating officer of intermediary Willcox Inc. in New York.

"There hasn't been any retrocessional coverage put together," he explained. "If I ask for a line for a primary insurer, what (is the reinsurer) going to tell me?"

"It will be a very interesting year-end—a lot of questions remain," summed up Patrick Peugeot, chairman of SCOR S.A. in Paris.

"It's like waiting for Godot," said Giles Schofield, director of London-based broker Fraser Insurance Brokers Ltd. The losses from Hurricane Andrew "may mean that the U.S. market pulls rates up and at long, long last the eagerly awaited turn in the market will happen."

The two main topics of conversation at the Rendez-Vous were what will Hurricane Andrew do to the insurance and reinsurance industry—"if it's an \$8 billion claim"—and who will survive? observed Jim Payne, chairman of reinsurance broker Sedgwick Payne Ltd. in London, a unit of Sedgwick Group P.L.C.

"U.S. domestic insurance companies are going to get blitzed" by Hurricane Andrew, he said. "There has to be a consequence to that. This could be the trigger...to raise prices."

However, "nothing will happen in the market for another six weeks" until claims from Andrew can be determined, Mr. Payne said. "Then we'll see who has the stomach to continue and who doesn't."

"It's just getting harder and harder for everything," added Nicholas Davenport, managing director of Willis Corroon Continental Europe Ltd. in London. "Renewals will be harder this year...the game will be who is going to be left."

Year-end renewals will be "difficult," agreed Victor Blake, chairman of CNA Reinsurance of London Ltd. "What's going on is survival of the fittest. If you're in that category (of survivors), then you're turned on by the opportunities available. Selfishly, I see this as a time of opportunity."

"We are at a point where we have to react," said Herve Cachin, general manager of Societe Anonyme Fran-

caise de Reassurances in Paris. "We know that if primary insurers in Europe take strong measures to reverse trends and raise rates 15% to 20%, we still lose money," he said, noting that most property insurance policies are underrated by 30% to 40%.

SAFR will no longer underwrite pro rata treaties if the ceding company does not cede its personal lines business along with commercial risks to SAFR, explained Jean-Pierre Fillebeen, president and chief executive officer of SAFR Reinsurance Corp. of the United States in New York.

And, when SAFR participates in catastrophe programs, "we have to participate in other lines of business as well," he said.

The SAFR executives estimated that the reinsurer will incur a \$12 million to \$15 million gross loss from Andrew, with the net loss totaling \$5 million to \$7 million.

Part of the uncertainty that per-

vaded the Rendez-Vous was caused by the fact that "reinsurers don't have a handle on insurer losses yet," said James E. Dwayne, president of Prudential Reinsurance Co. in Newark, N.J. "It's going to take some time," he added, noting that Pru Re had not yet been able to determine whether its losses from Andrew "would go through the top" of its catastrophe protection.

"What reinsurers are going to do—that's the \$64,000 question," Mr. Dwayne said.

For the market to turn, "It's got to affect the mentality of senior management. I don't know, but it doesn't appear" that has happened, he said.

Andrew "has raised everyone's consciousness. Now, it's up to senior management. If we do something now, we won't have to do something violent down the road," Mr. Dwayne said. "There has to be discipline. You've got to do it—walk

away from underpriced proportional programs."

While the bulk of the talk at the Rendez-Vous centered around property catastrophe programs, "cat premiums only account for a small portion of most reinsurers' business," Mr. Dwayne observed. And, he added, much catastrophe business is now written on a funded basis.

Daniel Marren, president of Commercial Risk Partners Ltd. of Bermuda, which writes what it calls "shared risk" reinsurance, agreed: "We won't see an overall hard market because of Commercial Risk and the other financial reinsurers that can provide capital."

While there may be a shortage of traditional catastrophe capacity, "funded covers can be used to fill the gaps in the full cat layer," pointed out Mr. Dwayne, noting that Prudential Re has funded a portion of its catastrophe program.

Some said they feared that new

capacity could hamper a turn in the catastrophe reinsurance market.

Several executives noted that the capital pledged to Mid Ocean Reinsurance Co. Ltd., the Bermuda catastrophe reinsurance company proposed by Marsh & McLennan Inc. and J.P. Morgan Inc., now exceeds the \$300 million goal set by its sponsors. For example, shareholders of EXEL Ltd. in Bermuda have approved a \$100 million investment, while M&M and Morgan each are buying \$30 million in shares (*BI*, Sept. 7; June 22).

Many, though are welcoming the formation of Mid Ocean, noting that the \$250 million in overall cat limits the facility plans to write will only make up a portion of the capacity that has left the cat market.

Paul Ingrey, president of F&G Re in Morristown, N.J., a unit of USF&G Corp., says he believes that Andrew could cause the market to

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**Just  
because the  
cycle turns  
upward,  
why should  
your premiums  
follow?**

Continued from previous page  
turn just as Hurricane Betsy did in 1965. As the losses from Betsy continued to rise, excess-of-loss reinsurance pricing increased. By the end of the next year, direct insurance rates also rose.

"By the end of next year, we may see increases in direct rates for both property and casualty risks," Mr. Ingrey said. "This is right out of a basic Paul Samuelson economics textbook—supply and demand."

While Mr. Ingrey said "there's less than a 10% chance that direct rates will rise by the end of 1992, there's a 50% chance by the end of 1993. There will be intervening factors between now and then, and those factors are more than likely to be negative," which would increase the likelihood of rate increases.

For year-end 1992 renewals, however, "I don't see much trend in the U.S., except that cat rates will go up moderately. But, they are already

too high, and you could get into a non-buy situation," Mr. Ingrey said.

Others, though, said Andrew and Betsy are not readily comparable.

"Betsy was a real crusher," said one senior reinsurance market observer, who explained that the property/casualty cycle was at the bottom when that storm struck in September 1965. "My guess is that Betsy was a harder hit at a time when everything was bad. It was like a cold bucket of water."

The worldwide insurance industry, he added, is in much better shape now than it was in 1965 to withstand a loss of Andrew's magnitude. "My guess, bottom-line, is that Andrew is not going to make a big difference."

"We are not optimistic of any changes in the market and have not heard anyone here who is," said Richard A. Adler, executive vp at underwriting manager Shand, Morahan & Co. Inc. in Evanston, Ill.

In fact, Mr. Adler is concerned that since the huge losses created by Andrew will eat into insurers' and reinsurers' cash flow, companies may be tempted to try to write more premium—at insufficient rates—to generate cash.

"My concern is if the damage attacks insurers' cash flow and not their solvency, some companies will try to write their way out of the mess," he said, adding that some insurers may move into new lines of business in search of premium volume, increasing competition.

"For companies like Frontier that are casualty-oriented, Andrew doesn't mean a lot," explained Peter L. Rhulen, vp of Frontier Insurance Group Inc. of Monticello, N.Y.

Mr. Rhulen believes that Andrew's effect on the market also will not be as great as many had thought because "between Allstate and State Farm, they are going to take a big hit."

Property insurance rates may rise a bit, he said. "Some stock companies will get a little more. Other than that, though, I don't see any big change in the market. It's steady as she goes."

"There seems to be a feeling that the problem is with the large direct writers," like State Farm Group and Allstate Insurance Co., "and that (the damage) is not as bad as it could have been," Shand's Mr. Adler said. "The days of looking for catastrophes for our salvation are over," he added.

State Farm, which does not buy reinsurance, says it will pay \$1.5 billion in claims from Andrew (BI, Sept. 14). Allstate—which had a \$250 million catastrophe coverage layer, of which only about \$170 million was filled—said that its net after-tax loss from Andrew will hit \$700 million (BI, Sept. 7).

Hurricane Andrew "was not an even, across-the-board hit," echoed

Fredrick O. Kist, managing partner-casualty actuarial for Coopers & Lybrand's risk management consulting practice in Atlanta. "We haven't had a trigger event—not even Andrew—to change the market.

"People are saying, 'Where is the kick going to come from to turn things around?' " Mr. Kist said.

Andrew was not as "broad-based as Hugo," agreed Willcox's Mr. O'Leary.

However, he believes "this is the event that will trigger rate hikes for property risks." As the catastrophe coverage market tightens, "primary insurers will be left with a lot of cat exposure," he noted, adding that rate hikes will be more pronounced for personal lines rather than commercial lines.

"Because their net lines will be bigger, they have to have more premiums."

Mr. O'Leary noted that Andrew is not making a big impression on many London and European reinsurers, despite the magnitude of the losses.

"I was shocked at the attitudes of the European and London reinsurers. It was like the last dinner on the Titanic," he said. However, he observed that as the week progressed, "the impact of Andrew began to take hold."

Still, London representatives maintain that Andrew will not add substantially to that market's already considerable problems.

"My own view is that London's share of Andrew will be substantially less than from Hurricane Hugo," summed up Ronald A. Iles, chairman of Alexander Howden Reinsurance Brokers Ltd.

The London market was slammed by the majority of the \$4.2 billion Hurricane Hugo because of the London market excess-of-loss reinsurance "spiral," which has since virtually disappeared, he noted.

U.S. insurers that have increased their property retention this year will pick up the majority of the tab for Andrew, said Mr. Iles, echoing the view of many London market executives.

Typhoon Mireille, which caused \$5.2 billion of insured damage in Japan last year, caused reinsurance prices to rise during Japanese renewals in April, so it is logical that prices will rise for U.S. ceding companies come year-end renewals and during July 1993 renewals, he said.

"It will be interesting to see what will happen to capacity in the U.S.," observed Jerome Karter, executive vp and chief executive officer of SCOR U.S. Corp. in New York, a unit of SCOR S.A. "I think the U.S. market will harden to some extent."

Many catastrophe reinsurers believe that retentions must rise next year so that ceding companies retain more of the natural disaster losses.

"If there will be more catastrophes, then we must push retentions up," said Nigel Burton, a catastrophe excess-of-loss reinsurance underwriter at Lloyd's. He noted that after Hurricane Alicia in 1983, U.S. ceding company retentions increased as much as threefold.

At the moment, large U.S. primary insurers retain an average of about \$100 million per catastrophe, said Mr. Burton, adding that retention perhaps should rise to between \$500 million and \$1 billion.

Property reinsurance renewals next year will harden, "but people won't pay more cash; they will increase their level of retentions," added Dennis Purkiss, chief executive of Lloyd's underwriting agency group Merrett Holdings P.L.C.

Some—albeit a few—reinsurers say they will take a hard line during renewals this year in order to

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## Market outlook

Continued from previous page  
increase prices, with or without the "Andrew factor."

John Engestrom, the new managing director of Mercantile & General Reinsurance Co. Ltd. in London, doubts that Hurricane Andrew by itself will force ceding companies to increase insurance prices across the board.

Primary insurers did not increase rates after Hurricane Hugo in 1989, the European windstorms of 1990 or Typhoon Mireille, so "I'm not sure that Andrew will make a great deal of difference either," said Mr. Engestrom, whose company is a subsidiary of Prudential Corp. P.L.C.

Following these disasters, property catastrophe rates did rise, but this class of risk is "infinitesimal" compared with property/casualty coverages, he said, noting that 70% to 80% of reinsurance still is written on a proportional basis.

Therefore, reinsurers must "tackle the bigger problem of getting the price right for our products," said Mr. Engestrom.

Come year-end renewals, "either you'd have to put your house in order and get the primary (insurance) prices right or we'll have to take a walk or switch to another form of reinsurance—a combination of non-proportional and facultative," warned Mr. Engestrom.

Ceding companies may take a few years to get their house in order and charge the right price for coverages, Mr. Engestrom understands. But M&G will stop writing reinsurance for ceding companies that do not make the effort, he said.

"We need to live up to the financial obligations of our owners. That means we have to get our prices right, and if we can't get them right in terms and prices, we'll have to tell our clients that we are reducing our commitments."

While many reinsurers are saying that prices will be increased and retentions increased at year-end, "in the months to come their resolve could melt away" Mr. Engestrom said, adding that M&G's resolve is firm.

Catastrophe reinsurance will definitely be hard to come by following Hurricane Andrew, said Balh Hayer, senior vp at Swiss Reinsur-

ance Co. in Zurich. Because rates have already hardened and catastrophe reinsurance capacity has already decreased, reinsurers can only demand increased retentions at the end of the year, explained Mr. Hayer.

Come year-end, ceding companies will be concerned about the financial strength of the reinsurers they use in light of the major insolvencies in the London and Scandinavian markets in the past year, according to Mr. Hayer.

Security, however, may cost more than ceding companies have paid in the past, he implied.

"The quality of security may well be the most important aspect of placing reinsurance in the 1990s," he said. "Security is our strength... and we feel we can pick and choose now" who the clients will be.

"Capital doesn't necessarily equal security," noted Jean-Francois Gelot, managing director of Optimum Risk Research (International) Ltd. in St. Peter Port, Guernsey.

While Mr. Gelot agrees with those who say there may be too much capital in the market, "Too much good capital, I don't know. What you need is capital that is invested in things that are secure."

One reinsurance broker said that as a result of the string of catastrophes that have hammered the catastrophe reinsurance market in recent years, including Andrew, some reinsurers may be considering reducing the so-called occurrence limitation—which holds that all damage caused by a storm during a certain period of time is classified as a single event—to 48 hours from the current 72 hours.

For example, if a 48-hour clause had been in effect, Hurricane Andrew would have been considered two events.

A ceding company with losses in both Florida and Louisiana would have had to reinstate its catastrophe coverage in order to receive protection in both states.

However, the broker warned, changing the occurrence limitation to 48 from 72 hours could be a "double-edged" sword for some reinsurers. If a hurricane caused extensive damage in two different areas more than 48 hours apart, the reinsurer could be forced to pay its

## A contrarian and lonely prognosticator

MONTE CARLO, Monaco—Few executives at the 36th Rendez-Vous de Septembre were willing to venture a guess on when the market would turn. LeRoy Simon would.

Mr. Simon, who retired in the past year as an executive consultant with Coopers & Lybrand, predicted at the Rendez-Vous "that the market will turn 18 months from today. The important thing, though, is that it will turn downward.

"How do I know? Because everybody thinks it is going to turn up," Mr. Simon said with a sly smile.

More seriously, Mr. Simon said his hypothesis is based on the fact that "everyone is demanding security from their reinsurers, which has been translated into a large surplus base. People won't listen to you if you don't have \$50 million, and \$100 million is more like it."

And the investors injecting such large amounts of capital into the insurance industry will demand generous rates of return. "How do you get that? By writing more business," Mr. Simon explained.

"You find the best risks, cut the price and take the business away from competitors. And, of course, the competition is doing the same thing to you."

He was quick to point out that reinsurers have not yet fallen into this pattern. "They have been paragons of virtue."

Mr. Simon ended his forecast saying, "Sure, I hope it won't happen, but..."

While Mr. Simon predicts that the market will favor buyers when it finally "turns" in 18 months, he has no sympathy for buyers that take unfair advantage of a competitive marketplace.

"The buyer who bullies the price down in a soft market shouldn't whimper when charged what the market will bear in a hard market," he said.

Mr. Simon, who last year said that the 35th Rendez-Vous would be his last, returned to Monte Carlo for his 20th September gathering to assist Coopers & Lybrand, for which he still does some consulting work in retirement.

He vows that the 1992 meeting will absolutely, positively be the last Rendez-Vous he attends. "You can be sure of it."

—By James M. Burcke

entire limits to a ceding company twice rather than once.

While reinsurers were unanimous in their desire for rate hikes, several executives noted that reinsurers must do a better job of advising their ceding company clients to be

successful in a turbulent market, a belief that was also expressed during the formal speeches delivered at the Rendez-Vous (see stories, pages 56 and 58).

"Reinsurers must do a better job of advising ceding companies," said

American Re's Mr. Abdallah. "Long-term clients will listen."

"The reinsurers with professional staffs that work with insurance companies from the ground up are going to be successful," he explained.

## Guessing Andrew's toll

Not an easy game, but everyone in Monte Carlo played

By JAMES M. BURCKE  
and STACY SHAPIRO

MONTE CARLO, Monaco—One of the favorite pastimes at this year's

Rendez-Vous de Septembre was guessing how much Hurricane Andrew would finally cost the insurance industry.

The Property Claim Services Division of the American Insurance Services Group has estimated that insured property damage in Florida and Louisiana will total \$7.8 billion, not including marine and aviation losses (BI, Sept. 7).

Insured marine damage has been estimated at \$500 million, while aviation damage has been set at another \$500 million.

Many people at the Rendez-Vous thought the total would grow.

"When the numbers start coming in for individual companies," the total insured damage caused by Andrew will rise to \$9 billion or \$10 billion, said Robert F. O'Leary, president and chief executive officer of broker Willcox Inc. in New York. Of that amount, \$2 billion in damage would wind up in the London market, he said.

Others estimated that the toll could go even higher, with some predicting insured damage totals of \$11 billion to \$12 billion and total damage reaching \$20 billion.

Some reinsurance executives noted that it was difficult to put together a meaningful number based on the loss reports announced by insurers and reinsurers.

"If you believe everyone's figures, the total is \$3 billion," joked Jacques Blondeau, president-operations of SCOR S.A. in Paris.

However, he added that it is difficult to get a good handle on total damage amounts from individual company reports because the increasing use of financial reinsurance distorts the numbers.

SCOR itself will likely incur a \$40 million gross loss from Andrew, "and much less than that net," said Chairman Patrick Peugeot. "That's a lot of money, but at least it's not \$250 million."

London underwriters, which were battered by Hurricane Hugo claims in 1989 (BI, Sept. 25, 1989), contend that this time around U.S. underwriters will pay most of the storm losses.

Others, though, say estimates that less than \$1 billion of Andrew's toll would be borne by London were at best overly optimistic and at worst lies intended to persuade Lloyd's of London members to remain in the market.

"There's two schools of thought I have heard down here," said Victor Blake, chairman of CNA Reinsurance of London Ltd. "Some say it is mainly a domestic issue (because

American insurance companies have bigger retentions than (they did for) Hugo. So, therefore, it will be a domestic problem."

"There's another school of thought that I've heard that says there is a degree of underestimation of the damage and the likely impact beyond the U.S. Some feel the price tag will be somewhat higher than the levels that people think would be comfortable levels as far as London is concerned.

"I don't have a view on that because the jury's still out. The conventional view seems to suggest that it shouldn't be as bad."

Mr. Blake said what "flabbergasted" him is "the size of loss being thrown around," referring to the \$20 billion total loss figure. "It seems to me it's very speculative—that you start with \$20 billion and say that \$8 billion of that is insured. There's an awful lot of guesswork. So, for the moment, I have no prediction, except to say I hope it is bad enough to make people sit up and domestic insurers address their fundamental problem of rates. And we will all be beneficiaries of that," he said.

While most attending the Rendez-Vous thought the final toll from Andrew would exceed current estimates, one executive steadfastly disagreed.

The PCS estimate is "a political number," said Arthur H. Deters, president and CEO of International Risk Management Group in Bermuda. "I take the propaganda figures and divide by two. And, this time, I hope I haven't overestimated."

Mr. Deters believes that the \$4 billion estimate of the U.S. damage caused by Hurricane Hugo in 1989 also "is a bit much."

"The fallout from the collapse of the Scandinavian insurance market is going to be worse than Andrew," he said, adding: "Watch this space."

Scandinavia is a "fairly important segment" of the world economy, he explained. The problems in the Scandinavian insurance market are "not going to be the straw that will break the camel's back, but I am not sure the camel can take many more straws."

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# Catastrophes dampen mood and attendance

By **STACY SHAPIRO** and **JAMES M. BURCKE**

MONTE CARLO, Monaco—A somber, at times depressing, mood pervaded the 36th Rendez-Vous de Septembre as insurers and reinsurers licked their wounds and counted the casualties of an unprecedented five years of catastrophes.

One of the more popular topics among the reinsurers, insurers, brokers, lawyers, accountants and others in Monte Carlo during the week of Sept. 6 was discussing who was not on hand this year.

Several insurers and reinsurers, particularly in the London and Scandinavian markets, had merged or stopped writing business in the past year, which meant that some well-known faces didn't turn up.

"I came (to Monte Carlo) to see who is solvent to take our reinsurance programs," said Axel Biagosch, director of Colonia Insurance A.G. in Cologne, Germany, and the unofficial organizer of the Baden-Baden reinsurance meeting in late October.

One underwriter said that the Rendez-Vous this year could be viewed as a wake or a celebration of a new beginning.

"These people are terrified," added a reinsurance broker. "They are here with their suits and ties, but they're broke."

About 2,200 people were registered for the Rendez-Vous, but there was general agreement that true attendance was down by as much as 30% from last year, when the official attendance figure was 2,288.

Although the Cafe de Paris was buzzing with reinsurers and ceding company executives talking about their programs in the bright sunlight that shone on Monte Carlo during most of the week, other meeting places, like the lobbies of the Loews Monte Carlo hotel and the Hotel de Paris, were much quieter than usual.

Cocktail parties seemed to be more sparsely attended than in past years, and there were empty tables for the first time in 11 years during the black-tie gala dinner held on Wednesday night.

"There are a lot of people registered in the (official Rendez-Vous) book who aren't here," summed up Nicholas Davenport, managing director of Willis Corroon Continental Europe Ltd. in London, who has attended the Rendez-Vous for 19 years. The crowd may have looked smaller, though, since "I don't recognize that many people (because) my generation is no longer around."

One of those whose absence was noted by many was veteran Rendez-Vous attendee William Delaney, president of intermediary Delaney Offices Inc. of New York. Mr. Delaney, a fixture at the Rendez-Vous for decades, was known for hosting a primarily "gentlemen-only" cocktail party at the Hotel de Paris.

Many observed there were far fewer insurer and reinsurer executives in attendance than usual, while the number of brokers, attorneys and accountants on hand may have actually grown.

"There are more brokers, lawyers and consultants than ever. There's more of them and less of us," said Michael E. Satz, chairman and chief executive officer of Capital Re Corp., a financial guarantee reinsurer in New York.

"Sometimes I wonder, 'Where are the clients?'" said Mahmoud M. Abdallah, senior vp of American Re-Insurance Co. in Princeton, N.J.

One reason that fewer U.S. insurer executives attended is that

*Continued on page 53*

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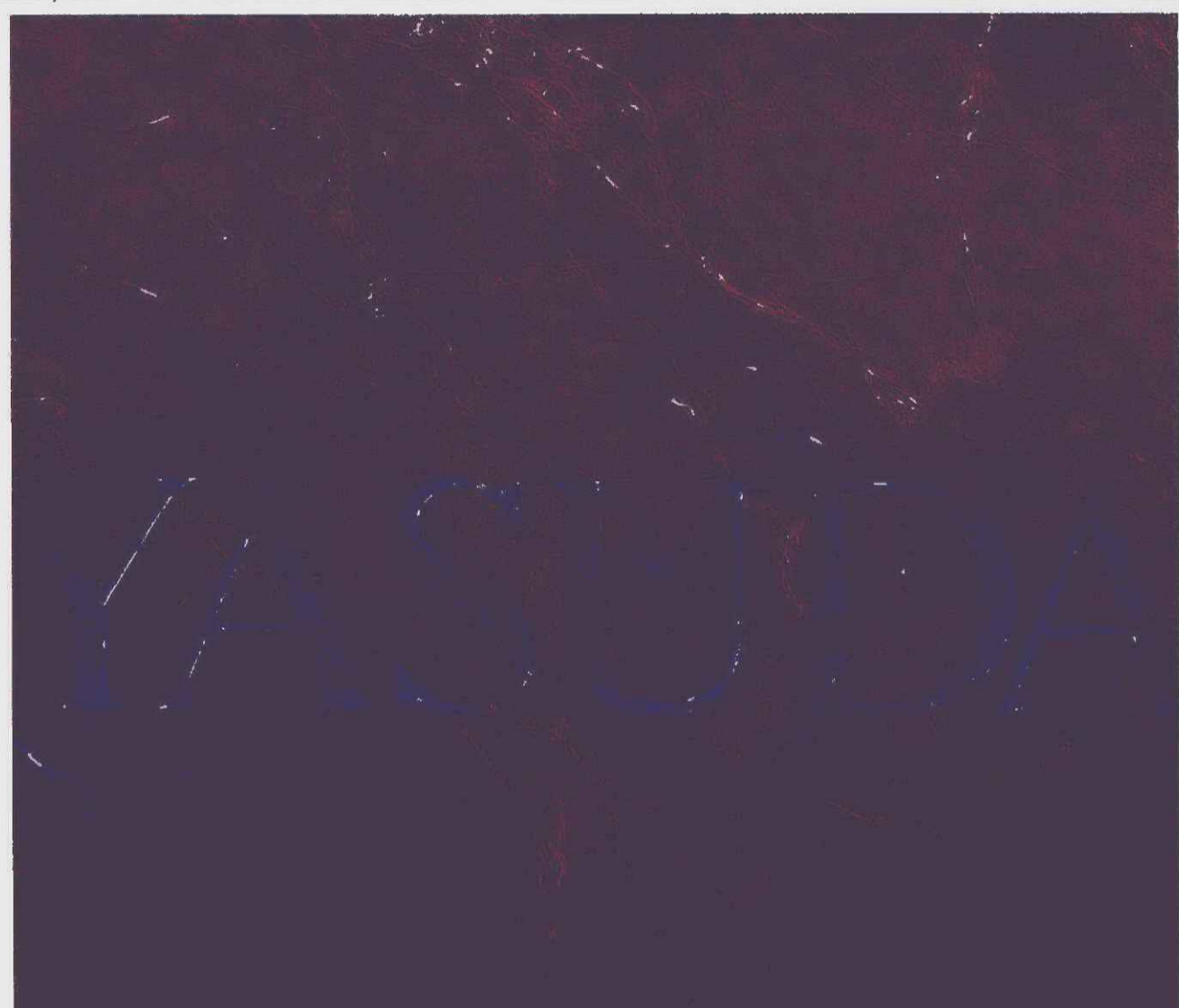
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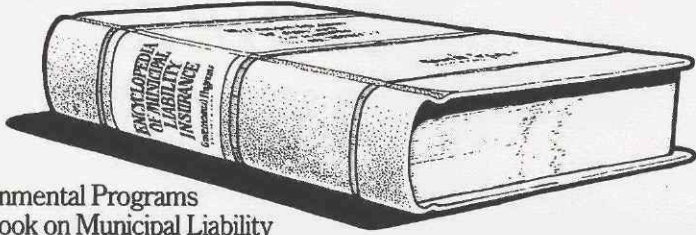
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## Standing out in a crowd

By SALLY ROBERTS

Attending yet another trade show could become drudgery for frequent convention-goers.

But the trip through a vast exhibit hall often becomes an adventure when there are attractions like a replica of an 1817 train car, a 5-foot-long live alligator, a mind reader and a baseball-trivia video game.

### Insurers share attention-grabbing trade show tips

Insurance companies use eye-catchers like these to grab the attention of potential buyers attending trade shows.

But as important as obtaining business leads is, exhibitors agree another key reason to exhibit at trade shows is to gain visi-

bility and increase awareness of the company's products and services.

And setting up just any old booth isn't enough. To stand out, exhibits should be theme-oriented, said Robert Bonomolo, manager of advertising and

director of corporate communications with Reliance National Insurance Co. in New York.

Developing the right theme is crucial. It must be memorable enough so someone visiting the exhibit one year will remember it the next year, he said.

Hopping aboard a train would be memorable, for instance.

Reliance National Insurance Co. unveiled its 1817 train car replica at the 1992 Risk & Insurance Management Society Inc. conference in Anaheim, Calif.

The 19th century train was used in honor of the 175th anniversary of Reliance Insurance Co.'s commencement of business, Mr. Bonomolo said. All literature sent out before and during the conference carried the train theme, he noted.

Weary conference-goers are invited to step inside the train, where they are served beverages and gold chocolate coins from bartenders dressed in Victorian costumes, he explained. The "passengers" can even make free business calls using late 19th century telephones inside the train.

Mr. Bonomolo pointed out that the exhibits should also reflect a company's "corporate image." And trade shows provide an excellent opportunity for insurance companies to "establish an identity for themselves," he added.

Mutual of Omaha Insurance Co. has tried to do just that by linking its exhibit to "Wild Kingdom," the television show the company has sponsored for almost 30 years.

Two of the television show's stars, Jim Fowler and Peter Gros, are accompanied by four to six live animals at the Mutual of Omaha exhibit, said Mark Evans, manager of group communications and advertising for the Omaha, Neb.—based company.

The animals range from lion cubs to pythons to a 5-foot-long alligator, Mr. Evans said.

"The animals attract a large number of people" to the exhibit, he said. People who approach the booth give their business cards to a photographer and have their photo taken with a wild animal. Either Mr. Fowler or Mr. Gros are included in the photo. The business cards are then used to track sales leads, Mr. Evans explained.

To attract attention among the sometimes hundreds of others, exhibitors must "be creative, dynamic and interesting," said Margaret W. Lawson, assistant vp of marketing at The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

The insurance company achieves this by personally interacting with attendees through a mentalist, who purports to read conference-goers' minds. The mind-reader works out of the exhibit booth and interacts with people following a story line using a prepared text, Ms. Lawson explained.

Continued on next page



## Standing out

*Continued from previous page*

The mentalist has become identified with the company. "People look forward to speaking with him and seeing him" at conferences, she added.

In the past, the insurer has used hand-held puppets to interact with the attendees. The puppeteer also relies on a prepared text to answer questions from the audience.

Another popular attention-grabbing interactive device at conferences is CIGNA Corp.'s electronic baseball trivia game.

Conference-goers sign-on to the computer video game by supplying information that CIGNA later uses to identify prospects, said Carol Wendel, vp-marketing for municipal insurance services for the Phil-

adelphia-based company

The company additionally ties in the baseball theme by giving away pens in the shape of baseball bats with CIGNA's logo on them, she said.

Since its 1990 debut, the baseball theme continues to be a success for the insurance company and works especially well when it's in sync with the baseball season, Ms. Wendel said.

The company also sets up a 20-foot-by-20-foot putting green at some smaller conferences to attract attention, said Michael Martin, senior sales promotional specialist for corporate marketing at CIGNA.

But specially programmed video games and miniature putting greens don't come cheaply.

In addition, booths can cost anywhere from \$3,000 to "as high as

**Chubb spends \$25,000 every time the insurer goes to a major trade show, and this does not include the cost of Chubb's elaborate exhibit, which is worth \$200,000. But, 'the return on investment is easily fivefold,' points out Ms. Korkuch.**

you want," Mr. Martin said.

And that doesn't include the exhibit fee, individual conference fees, shipping expenses or travel expenses that accompany attendance at all conferences, said Mary Lou Korkuch, manager of promotion and public relations for Warren, N.J.-based Chubb Corp.

Chubb spends \$25,000 every time the insurer goes to a major show, she said. And this does not

include the cost of Chubb's elaborate exhibit, which is worth \$200,000, she noted.

Ms. Korkuch is quick to point out, though, "that the return on investment is easily fivefold."

Mutual of Omaha has a national conference budget of \$50,000, which enables the insurer to attend three to five national conferences a year, according to Mr. Evans. The company is also building a new

"more cost-effective" exhibit with a \$30,000 price tag. The retired booth cost the insurer \$40,000, he noted.

Booths are only one way of maintaining a high profile at conferences.

For example, Chubb officials try to "be available for presentations and offers to be on panels" at various industry conferences, Ms. Korkuch said.

Hartford Steam Boiler also "tries to get a speaking part" on seminars and panels, Ms. Lawson said. It is an effective way for the insurance company to announce its presence and to communicate important information to the customers, she said.

Reliance National goes as far as to sponsor a television series, "The Premium Dollar Today," pointed out Mr. Bonomolo (*Insurer Topics*, June 18, 1990). The 30-minute programs are aired nationally on cable television's USA Network early Friday mornings.

At this year's RIMS conference, the insurance program was taped live from the conference's main exhibit hall, Mr. Bonomolo said. RIMS conference-goers were welcome to sit in on the taping, he said.

Mini-events held prior to conferences are quickly becoming another way to gain further recognition.

For example, Mutual of Omaha invited its best customers, brokers and business leads on a private tour—led by Wild Kingdom's Mr. Gros—of a new aquarium in New Orleans prior to the 1991 RIMS conference there.

Chubb also tries to get a jump on the competition by holding a breakfast for specific clients, prospects, agents and brokers, and by mailing a post card with a color photo of the company's exhibit to attendees prior to the conference, Ms. Korkuch said.

The insurer obtains the registration lists from conference sponsors and sends out the post cards a week before the gathering to all existing and potential buyers, telling them to "Please stop by and visit us," she said.

Hospitality suites at conferences are a popular draw, too.

Continental Corp. rents suites for four to five days, inviting specific clients and prospects to stop by after the conference to chat and have a drink, said Jim O'Sullivan, director of marketing communications for the New York-based insurance company.

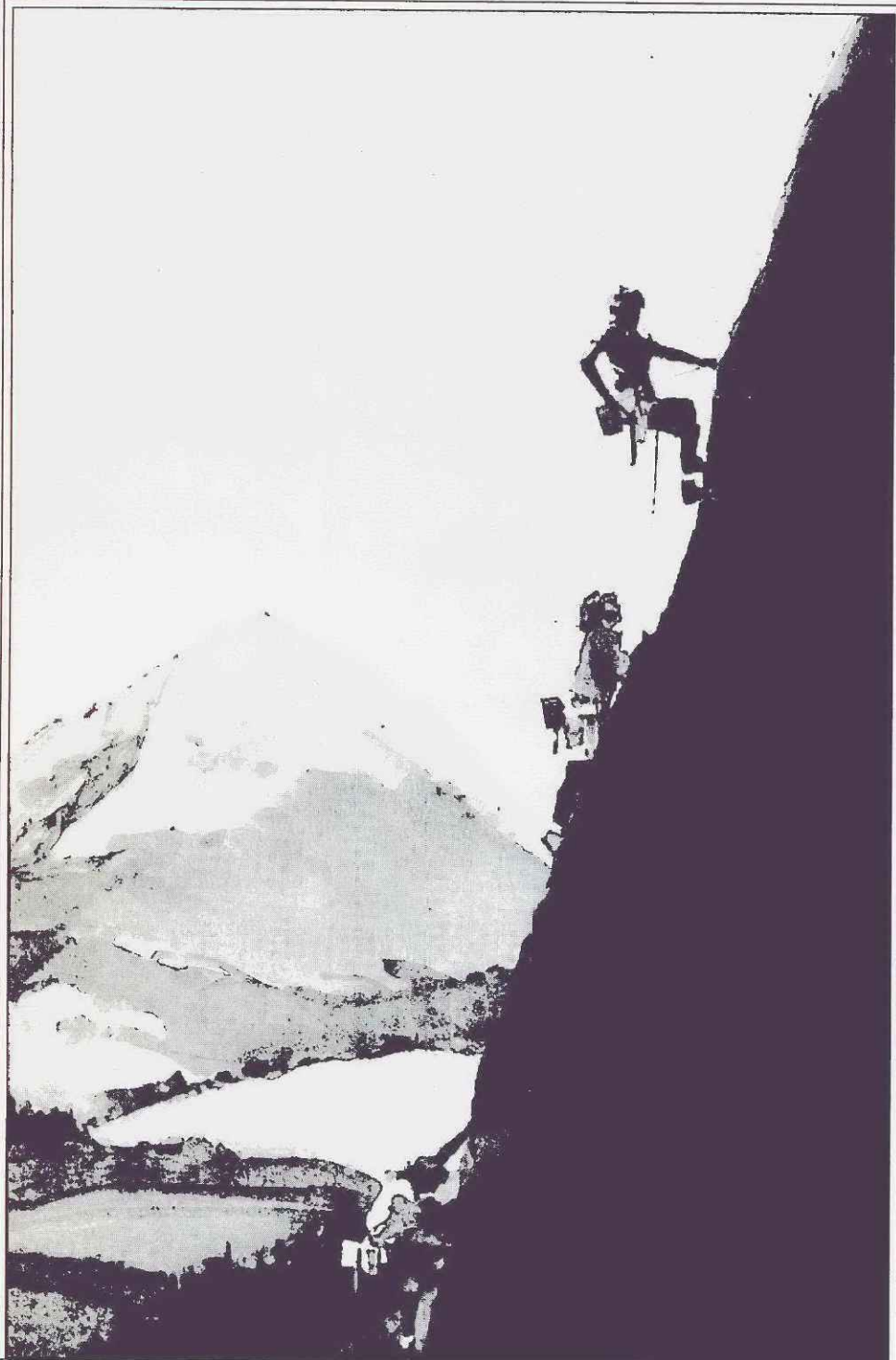
While all these gimmicks initially draw conference-goers in, there has to be substance under the glitz.

"Displays will only act to attract, but it's up to the company's marketing and underwriting staff to discuss and finalize products and proposals," said Rudy Marinelli, vp of advertising and director of creative effort for Reliance National in New York.

Making available informative literature, as well as knowledgeable company representatives, at meetings is important.

For example, Mutual of Omaha's literature and products inside the booth outline its extensive managed care experience, Mr. Evans said. "As people come through, we glance at their business cards and generate conversation" about their benefit plans, he said.

Chubb has found that in addition to specific product literature, generic corporate pamphlets that underscore the company's productivity are also very popular with attendees, said Ms. Korkuch. ■

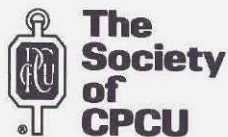


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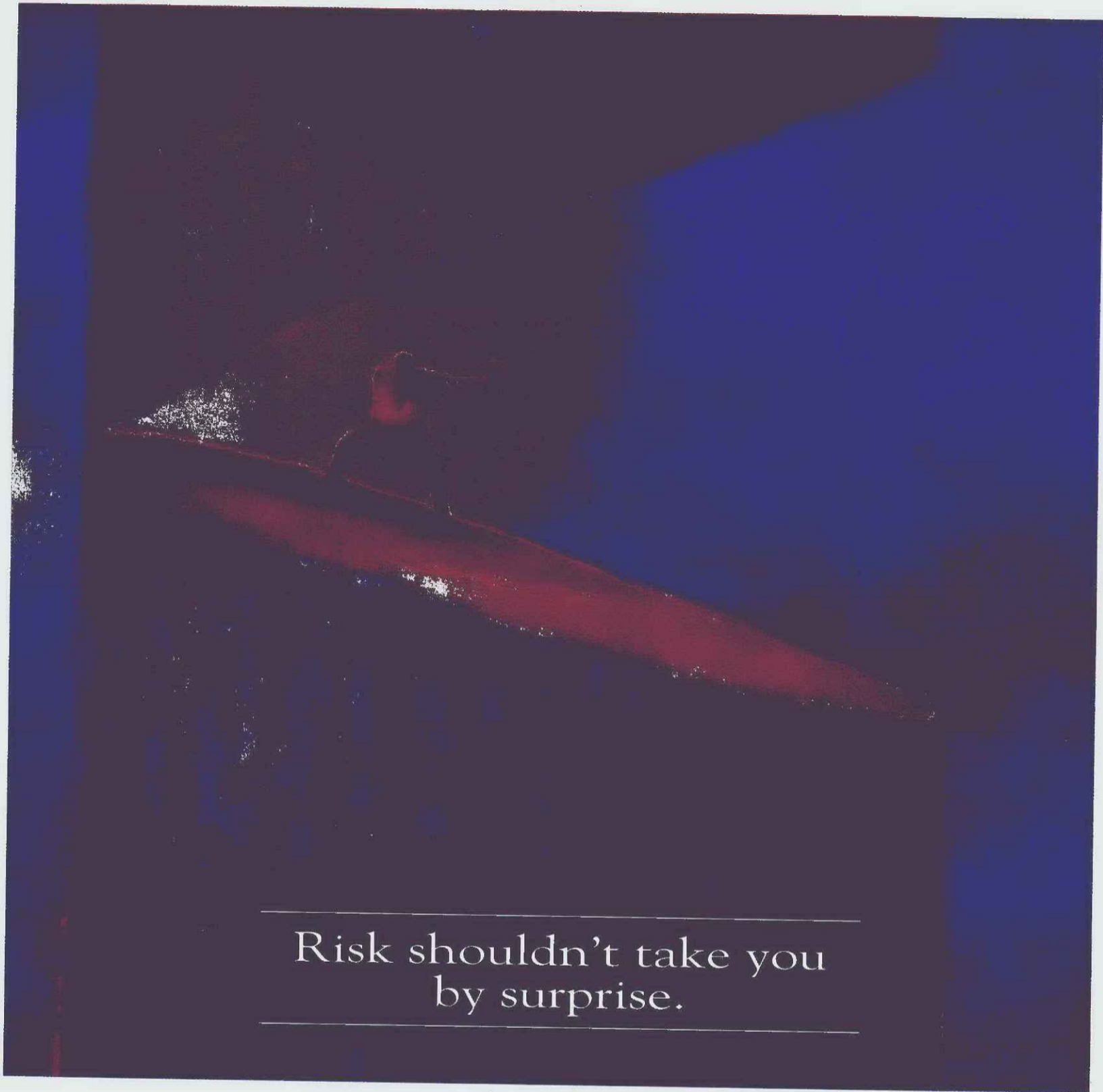
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# The nuts and bolts of an effective insurer exhibit

By SARA J. HARTY

To the casual visitor, conference exhibit halls are notable more for the gimmicky goods that can be collected than for the architecture and style of the booths themselves.

Exhibitors know better. They know that company name recognition can depend just as much on booth design and graphics as it does on freebies.

Once a company has decided to purchase a custom booth to be used at trade shows and conferences, the participation of upper management in the booth's design becomes crucial, said Llona Kitzing, president of Kitzing Inc. in Chicago, an exhibit booth designer.

Upper management can provide guidance on the booth's role in a company's overall business plan and marketing goals, she noted.

Graphics used in a display should immediately establish corporate identification, perhaps followed by some company statement, said Debbie Nussbaum,

## Booth design conveys corporate image, even across a crowded hall

sales manager at Innovations Inc. in Shrewsbury, Mass., which designs exhibit booths.

At eye level, the artwork should become "product specific," she said.

It's important for the booth to stand out, said Michael Cardillo, co-owner of Mount Vernon Displays Inc. in Prospect Park, N.J.

A booth should be distinctive enough that people will remember it whether or not they visit it, he said.

The booth should convey a solid corporate image that allows the company to communicate its message even from across the aisle, Ms. Nussbaum agreed.

Designers suggest thinking of them as billboards rather than advertisements.

"No one will read the fine print," said Ms. Kitzing. Instead of a lot of type, use enlarged photographs to draw attention to the booth, she said.

Individuality is one goal of an exhibit. So there really is no such thing as "must have" features,

said Ms. Nussbaum; it all depends on what a company wants.

Some want a "perimeter controlled exhibit" that keeps out everyone not specifically invited. Others strive for an open-air atmosphere that encourages people to mill around and talk, she explained.

For open-air exhibits, booths

**Ms. Kitzing advises using enlarged photos at a booth. 'No one will read the fine print,' she says.**

must be designed to facilitate traffic flow, said Dan Knoroff, director of marketing and communications for Kitzing. "Prospects must be carried through the exhibit properly."

The materials used to construct a booth are another important consideration.

Currently, laminated surfaces are more popular than painted ones. When it's used at all, paint generally is splattered or marbled, Mr. Cardillo said.

"A marbled look is very 'in' right now," Ms. Kitzing agreed.

And, "good lighting is critical" for drawing prospects into the exhibit, Ms. Kitzing said.

Lighting can also be used to emphasize graphics or artworks.

For instance, light boxes behind blown-up photographs are very popular for a time, Ms. Nussbaum said. But many exhibitors have moved away from that due to budget cuts. "It's just as effective to get a good picture to begin with and use direct lighting from the front."

Other currently popular features include columns, curves and enlarged vivid pictures to decorate the booth.

In addition to aesthetic considerations, there is also a practical side to selecting a booth.

More companies are requesting lightweight or easy to set up ex-

hibits. And nine times out of 10, companies want a "modular" exhibit booth that that can be broken into smaller exhibits, said Ms. Nussbaum.

Durability requirements vary widely. Some companies have used the same exhibits for more than 10 years, and good exhibit houses should be able to provide a look that is more or less timeless, Ms. Nussbaum said.

Usually, though, either changing styles or wear and tear will force a company to consider replacing an exhibit after about five years, she said.

With budgets tight right now, one way to achieve a new look is to recover or repaint a booth's individual exhibit components, Ms. Nussbaum suggested.

For a new booth, exhibitors should plan to spend \$110 a square foot for an island exhibit, which offers access from all directions, or \$1,000 a linear foot for a linear exhibit, which is approached from the front, designers say. That works out to anywhere from \$20,000 to \$100,000 or more for a new booth. ■

# Making the trade shows pay off handsomely

Attending trade shows of target clients, Chubb finds an audience ready and willing to buy

By SARA MARLEY

WARREN, N.J.—Chubb Corp. traces \$3 million in new business in the first half of 1992 to its presence at six trade shows—five of which had nothing to do with insurance.

Even at \$20,000 to \$25,000 per show in fees, shipping and staff expenses, attending trade shows is more than cost-effective for the insurer, said Marilu Korkuch, manager of promotion and public relations for the Warren, N.J.-based Chubb.

Chubb began attending the Risk & Insurance Management Society Inc.'s annual conferences in 1986.

Its involvement in RIMS since has expanded to include nearly all of its commercial underwriting and service departments, Ms. Korkuch said.

In a desire to "get closer to the customer," Chubb expanded its show attendance in 1990 to include gatherings of the industries it had targeted, Ms. Korkuch said.

Today Chubb's distinctive exhibit is a familiar sight at trade shows and association annual meetings of the banking, construction, legal, mining, museum and wine-making industries.

"We are usually the only insurance company exhibiting," Ms. Korkuch commented.

"We often find that our fellow exhibitors are also prospective clients," she said.

The shows have also provided a good forum for market research.

Chubb has found that attendees reach the exhibit hall "pre-disposed to buy."

In fact, 83% of attendees have the final say in what products and services are purchased, and 90% of them buy within a year, Ms. Korkuch said.

Chubb also has found that leads generated at trade shows cost 70% less to obtain than a traditional sales call, and the in-

surer can reach four or five qualified prospects every hour on the exhibit floor.

Trade show marketing has been successful because Chubb can promote specialty insurance products "directly to the person who understands how we are responding to their needs," said Sandra Kressley, senior account executive for Gilbert Whitney & Johns, a Whippany, N.J.-based public relations firm that works with Chubb.

The results of that direct approach are impressive:

- Attending the Assn. of Legal Administrators conference in April brought in \$1 million in



Photo by Peter Rogers

**Jerry and Michael Cardillo, who created the Chubb exhibit, oversee its shipping and setup.**

new law firm business to Chubb's commercial lines department.

- The same department landed a major electronics firm at RIMS in April, bringing with it a \$1 million annual premium.

- After the Wine Tech conference in Oakland, Calif., Chubb's Concord, Calif., branch office wrote \$800,000 in new winery business in six months.

- Chubb's Department of Financial Institutions netted \$1.2 million in new trust property premiums during the second quarter, following the American Bankers Assn. February meeting. Flexibility is the key to

Chubb's exhibit booth. The bases of the booth, which consist of granite-look cubes and cylinders, support interchangeable 5-foot by 8-foot panels.

The panels feature close-up color photos that illustrate the types of businesses Chubb insures and are selected according to the audience at a given conference.

The panels are lit from above, with wiring running down through the panel into the base to eliminate unsightly and potentially dangerous cords.

Television monitors and video cassette recorders are housed in a separate, larger cylinder, which also provides storage space.

A large rectangular wood cabinet that unites the looks of both the panels and the base provides internal storage for promotional and educational materials and an external display space.

Sporting a quote from founder Hendon Chubb that defines the corporate philosophy, the cabinet serves as the exhibit's anchor.

The units can be arranged to fit any space, Ms. Korkuch said. While Chubb prefers an island or peninsula setup—that is, open from four or three sides—the exhibit can also fit into a row configuration by defining its space with black curtains.

Chubb's exhibit can also be split to allow the insurer to appear at two trade shows simultaneously.

Even the exhibit's charcoal-gray carpeting is flexible, available either in 2-foot squares or 10-foot by 20-foot rolls.

As creators of Chubb's exhibit, Jerry and Michael Cardillo of Mount Vernon Displays of Prospect Park, N.J., travel with it to the trade shows. The two men oversee the packing of the exhibit's components in felt-lined crates, transportation in an air-ride tractor trailer and setup at the conference. ■



Photo by Allan Shoemaker

**Chubb's booth at the 1992 RIMS conference featured an island structure, which allows visitors to enter the exhibit from all sides. The box displaying a quote from Hendon Chubb doubles as a storage space.**



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Travelers recently used a desk set giveaway—a clock, measuring tape and scissors—to help promote its managed care division.

# Insurers use upscale gifts to lure qualified prospects

By LAURA MAZZUCA

Key rings, lapel pins and ball-point pens emblazoned with insurance company logos are familiar sights at conventions and trade shows. A bowl full of trinkets typically is positioned within grabbing distance of passers-by at insurers' display booths. While these old standbys will never go out of style, many insurers are turning to high-end giveaways to lure certain prospects at meetings.

"We're very focused on making sure that what we're giving away is tied to what we do," said Marian Hanson, director-industry relations and events marketing for the managed care and employee benefits department of The Travelers Co. in Hartford, Conn. Travelers has never been big on key chains and pens, she added. "We don't believe in having a basket of candy to woo people into our booth. The point

is not to give away junk, but to find qualified leads." Insurers like to introduce giveaways as part of a larger campaign, typically to introduce new products, said Michael W. Martin, senior account executive-corporate marketing at CIGNA Corp. in Philadelphia. The promotional item is designed to reinforce the overall message of the campaign, he said. For instance, at several recent agent conventions, CIGNA introduced a new blanket property insurance policy for sale in Europe, Mr. Martin said. Both mailings and promotional materials handed out at the booth bore pictures of a blanket, and lap blankets carrying the design were given away. Blankets went only to those CIGNA selected from a list before the convention. Mailers were sent out letting the lucky few know a blanket was reserved for them, Mr. Martin said. The blankets cost CIGNA \$10 each. "We wanted it to be a high-quality product," he said. Travelers follows a campaign's theme in booth design and other aspects at the six to eight large national trade shows it attends each year, including the National Managed Health Care Congress, the Independent Insurance Agents of America's national convention, and the Risk & Insurance Management Society Inc.'s annual conference. For a recent theme of "Mastering the Art of Managed Care," Travelers passed out promotional cards, and asked passers-by to draw a picture of Travelers' trademark umbrella. Would-be artists used crayons and paints available at the booth and were rewarded with a painter's cap bearing the Travelers logo. Paintings were displayed in the booth, along with the artist's name and company. "People got very elaborate," Ms. Hanson said. To follow up later, Travelers put the drawings in paper frames and had its field representatives send them back to the artists, she added. Travelers' costs were 85¢ per painter's cap and 50¢ for each paper frame. Another campaign—"Travelers and business working to solve the health care puzzle"—emphasized its managed care division. The campaign was built around a premium: a black plastic box containing a clock, a measuring tape, and scissors. Travelers tied the premium into its campaign with support material that related the clock to reducing downtime, the scissors to cutting costs, and the tape to measuring results. "Something clever that would stay on a person's desk" is how Ms. Hanson describes it. The giveaways, which cost Travelers \$12 each, were distributed through a drawing. People who stopped at the Travelers booth were asked to identify their biggest health care concerns, so "the booth turned into a forum," Ms. Hanson said. Not only did these comments generate leads for field reps, but Travelers compiled the com-

## OCTOBER

### Claims Handling/ Claims Automation

Quick, accurate claims handling is so important because policyholders expect top treatment and service when they have a claim. *BI's Insurer Topics* section will examine the latest techniques and technologies employed by insurance companies to improve claims adjusting and administration. And, are insurers being pressured by some state insurance regulators to improve their claims handling records?

Issue: October 19  
Ad Closing: October 7

## NOVEMBER

### Anti-Fraud Efforts/CPCU Conference Report

Fraud costs insurers hundreds of millions of dollars each year. And, as insurers become more sophisticated in detecting fraud, the fraud artists themselves become more sophisticated too. *BI's Insurer Topics* section will look at the most common techniques used to defraud insurers and how individual insurance companies can work by themselves and with law enforcement agencies to detect fraud.

Issue: November 16  
Ad Closing: November 4

## DECEMBER

### Mergers/Acquisitions/ Divestitures & Investments

How active has the insurance industry been in pursuing mergers and acquisitions over the past year? *BI's Insurer Topics* section will look at this activity including Transamerica Corporation's attempt to spin off its property/casualty insurance operations. In addition, *IT* will examine insurers' efforts to manage their real estate investments in the face of the slumping real estate market.

Issue: December 21  
Ad Closing: December 8

# Insurer Topics

*Insurer Topics* is a monthly demographic section published within the pages of *Business Insurance* and sent exclusively to *BI's* insurance and reinsurance company subscribers.

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\* An Audience Profile of the *Business Insurance* 'Insurance & Reinsurance Company' Subscriber, 1990.



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Continued from previous page  
ments and publicized the results  
as a survey, she said.

This year, Travelers is building  
its campaign around a "diamond"  
theme, emphasizing  
product quality. Qualified leads  
will receive Tiffany paper-  
weights, costing \$65 each, Ms.  
Hanson said.

Insurer marketing people typi-  
cally work with giveaway suppli-  
ers to come up with campaign  
ideas, Mr. Martin said. Once  
CIGNA has an idea for an item,  
it will solicit bids from several  
suppliers. Since the market is  
very competitive, CIGNA gener-  
ally gets a good price on the  
items, he said.

Take the blanket promotion,  
for example. Suppliers initially  
quoted \$25 to \$30 per blanket,  
but negotiation brought that  
down to \$10, he said.

Budgets for CIGNA's cam-  
paigns are set by each division,  
with a clear business objective—  
and return on investment—in  
mind, Mr. Martin noted.

Giveaways can cost from 50  
cents per unit for conventional  
items, like pens and key rings, to  
"as much as you want it to be,"  
he said. CIGNA once spent \$60  
per unit on a crystal globe that  
tied into a promotional cam-  
paign, he noted.

Insurers also work with suppli-  
ers on promotional ideas.

"We stay away from bags, pen-  
cils and pens," remarked Joyce  
Golden, president of JCG & As-  
sociates, a corporate gift supplier  
in Farmington Hills, Mich.

**'We look for anything  
useful,' says  
Hartford's Ms. Phelan.  
'It's not necessary to  
spend a great deal.'**

JCG specializes in developing  
themes to go with the giveaways.  
"We like to give away something  
with a purpose," Ms. Golden  
said.

Some of its ideas are related to  
the particular convention or  
event—like a deck of playing  
cards complete with the com-  
pany's logo for a convention in  
Las Vegas.

JCG also developed a board  
game for one client's display  
booth, which was mailed to con-  
vention attendees before the  
event to prequalify them for  
giveaways, she said. "The key is  
to bring them by the booth."

She noted that people like  
items with a "toy factor," such as  
a Rubik's Cube or other item that  
can wind up on a person's desk.

But there is something to be  
said for those pens and key rings,  
too.

"We look for anything useful,"  
said Janet Phelan, administra-  
tive associate-corporate rela-  
tions at ITT/Hartford Group Inc.  
in Hartford, Conn. "It's not nec-  
essary to spend a great deal to  
get the same effect."

Ms. Phelan, who orders give-  
aways for Hartford divisions at-  
tending trade shows, finds that  
most are looking for items under  
\$2 per unit, in typical quantities  
of between 250 and 500. Recently  
popular items include Post-It  
flags—which attach to items in  
files—magnetic note holders, and  
a pocket-sized first aid kit—all,  
of course, bearing the Hartford  
stag logo. ■

# Tricks of the trade show exhibitor

## Allendale executive says advance planning is critical for a successful exhibit

By NANCY P. JOHNSON

JOHNSTOWN, R.I.—If experi-  
ence is the best teacher, then  
seasoned trade show exhibitors  
are well taught.

The demands of planning and  
execution for exhibiting at a  
large trade show are myriad. It is  
impossible to anticipate every  
contingency in preparing for a  
show, which includes reserving  
booth space and building a  
booth, as well as ordering and  
dispensing giveaways.

And, control goes only so far in  
the world of trade shows. Exhi-

bitors are forced to surrender  
control of all materials—including  
the booth—to others once  
they reach the exhibit hall, be-  
cause in larger cities, union rules  
typically require that booth in-  
stallation and material storage  
be handled by local workers.

One exhibitor who has met  
these challenges and lived to tell  
about them is Florine Edwards,  
assistant vp at Allendale Mutual  
Insurance Co. in Johnstown, R.I.

Ms. Edwards was a novice ex-  
hibitor two years ago (*Insurer  
Topics*, Sept. 17, 1990). She has  
since represented Allendale and

its affiliates at 10 trade shows in  
the United States and Canada.

Looking back on her two years  
of working the trade shows and  
observing other exhibitors, she  
offered a number of suggestions  
for exhibit hall neophytes.

The most important aspect of  
exhibiting is planning, Ms. Ed-  
wards emphasized. "Planning is  
crucial. It means the difference  
between a good show and a me-  
diocre show."

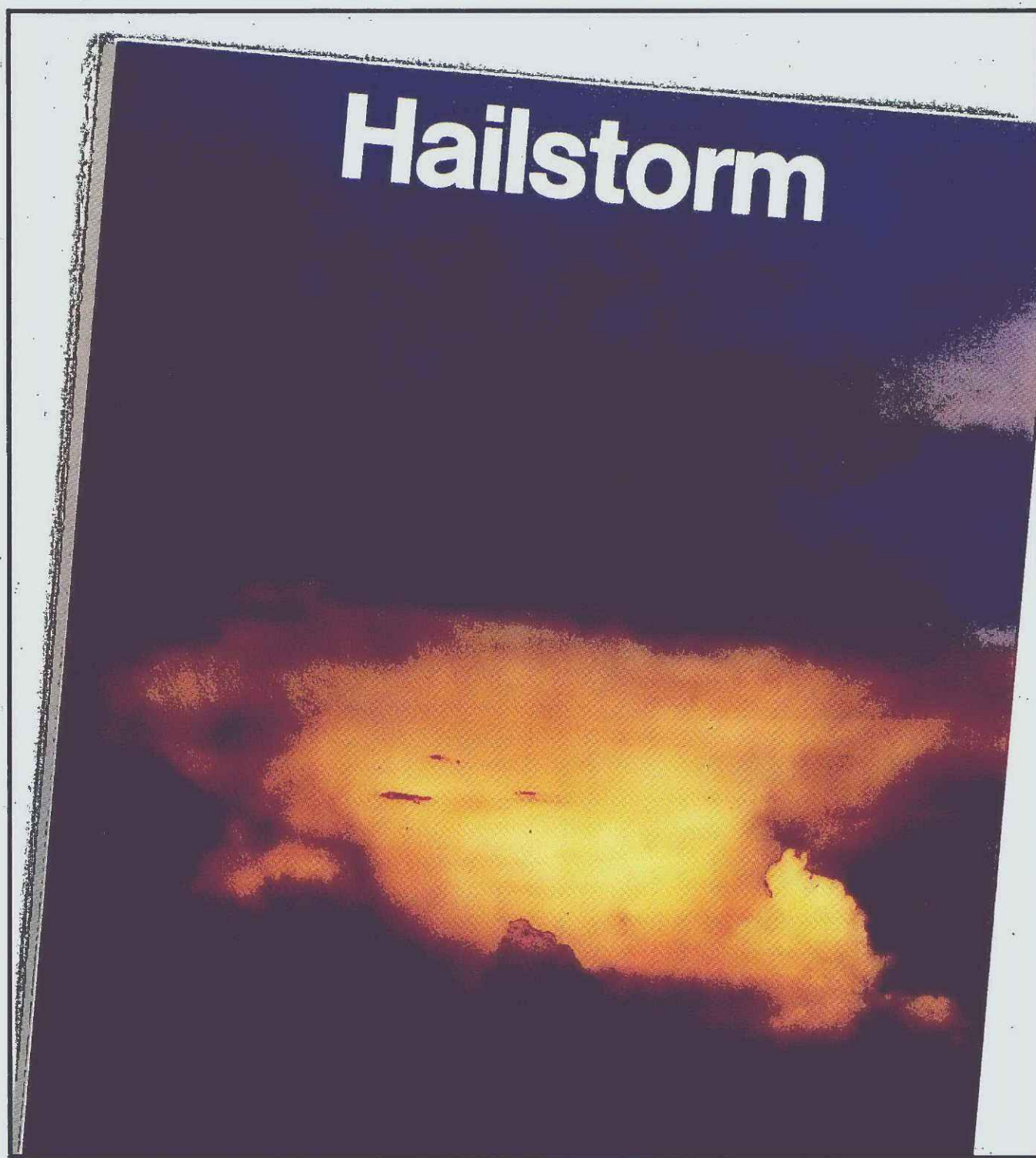
Allendale got the jump on the  
National Assn. of Professional  
Insurance Agents' national con-  
ference last year when it sent out

letters to attendees in advance of  
the show.

This tactic resulted in in-  
creased booth traffic, said Ms.  
Edwards, who estimated that  
more than 25% of people stop-  
ping by mentioned they had re-  
ceived Allendale's mailing. "I'm  
sure the mailing was a motivat-  
ing factor" in certain people  
stopping by, she said.

The mailer idea came out of a  
post-show staff meeting, another  
one of Ms. Edwards' favored rec-  
ommendations.

"After every trade show, those  
*Continued on next page*



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Advice

Continued from previous page  
of us who are working the booth meet and talk about what we did that week—what could be improved upon.”

At one of these meetings, they determined that at PIA and Independent Insurance Agents of America Inc. conferences, the signs on the booth didn't highlight the products of Allendale's subsidiary companies.

“Our booth signage only listed the names of two Allendale units”—Affiliated FM Insurance Co. and Appalatchian Insurance Co.—“and that just was not making the impact we needed at the show,” Ms. Edwards said.

Now, when the insurance company exhibits at PIA and IIAA shows, signs display the two company logos with the message “Property Insurance Specialists” underneath.

One of the biggest undertakings for exhibitors—and where mistakes can be very expensive—is in ordering a custom booth.

“If you are going to build a booth, make sure it is versatile,” Ms. Edwards advised.

When Allendale had its booth made two years ago, the company asked the builder—Shrewsbury, Mass.-based Innovations Inc.—for a booth that could be easily modified.

Accordingly, Allendale's booth

was built so that the signs in lighted boxes can be changed depending upon the show at which the booth will be used. For example, the company uses Allendale signs for the annual Risk & Insurance Management Society Inc. conference, and switches to signs highlighting its two units for the PIA and IIAA shows.

An adaptable booth saves money, she pointed out.

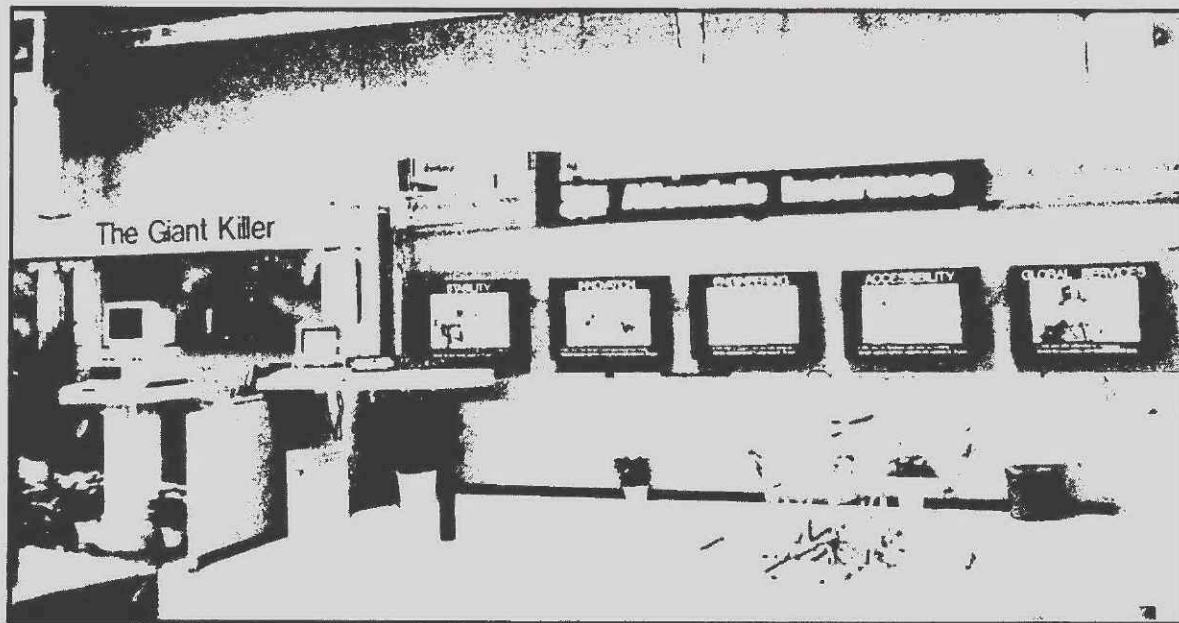
Versatility also led to the physical dimensions of the booth, she added.

At the RIMS show, Allendale's booth is built to be 10 feet deep. But at IIAA and PIA shows, the limit is eight feet deep. The solution: Allendale's booth is designed so that when cabinets are removed, it is only eight feet deep.

The Allendale booth is not only versatile, it is built to last, she said. “We told the builders we wanted something that lasts five years.”

Ms. Edwards noted that she had just sent the booth to New Orleans for the IIAA show, which was held last week. And, afterward she is trusting the shippers to pack and send it all to Orlando for the PIA show to be held in November.

“It is a great leap of faith,” she admitted, but this saves the double expense of sending the booth back and then shipping it out again, she said.



Allendale's booth is built to accommodate various size needs and features easily changed signs.

Ordinarily, Allendale's booth is sent back to its builder between shows. As part of the original contract, Innovations makes any needed repairs and then stores it between shows.

Those frequent touch ups are important, Ms. Edwards said. “You want a booth to look fresh, not tired or old. You don't want to look like a sloppy, shoddy company.”

There is a tendency to think you can take it easy after the booth is built, she said. But building the booth is just the beginning, she warned.

With every exhibit, the challenge of shipping and setting up the booth and other materials is repeated.

“Don't slack off on paperwork” needed for shipping, she urged. Every time you ship materials for an exhibit, make sure that the freight has arrived.

It is also important to be there the day the booth arrives in order to authorize any needed repairs, she said.

Keep an eye on the booth assembly in progress, she recommended.

Ms. Edwards recalled that at one exhibit she monitored the beginning of the booth assembly, then left to take care of other matters. When she returned, she saw that the booth had been assembled without its custom carpeting—a must to avoid aching feet—that also had been shipped.

With one hour to opening time for the exhibit, Ms. Edwards had to make a tough decision: have the assemblers tear down the booth to install the carpet, or go carpet-free. Reluctantly, she decided the show must go on—without the carpet.

Other pitfalls lurk in the exhibit hall, Ms. Edwards said.

For example, when setting up, exhibitors should always find the location of the exhibit hall's inaccessible storage, where items like the crate used for shipping the booth will be stored, and the accessible storage, where items that will be needed during the course of the exhibit, like extra brochures, must be kept.

“Ask the exhibit personnel to show you where both types of storage are located,” she advised.

Ms. Edwards lost half of her giveaways at an exhibit two years ago because boxes of the items were obscured by empty shipping crates in the inaccessible storage area. The exhibit hall personnel couldn't help her find the items, because a different

group of workers began working halfway through the week-long show.

And giveaways themselves can prove tricky, Ms. Edwards said.

“Don't give something that's too heavy for people to take home,” she advised.

People don't ordinarily think of a ceramic coffee mug as a heavy item—that is, until they are thinking of packing an already overloaded suitcase, she explained.

Allendale's giveaway at the 1991 RIMS exhibit in New Orleans was coffee mugs filled with candy. To Ms. Edwards' surprise, some exhibit-goers gave the booth attendants their business cards and asked them to mail the mugs. She and her staff cheerfully complied.

“We arrived in New Orleans with 5,000 candy-filled mugs. We came home with 2,000,” she recalled.

But she learned from the experience. At the next RIMS exhibit, in Anaheim, Calif., “We went out with 7,000 pairs of sunglasses and came home with nothing,” she pointed out.

“The watchwords here are:

lightweight, compact, packable,” she said.

Not all blunders are made in planning and setting up at trade shows, Ms. Edwards noted.

For etiquette, problems in booth etiquette seem to crop up as the show progresses, she observed.

At longer shows, there is the temptation for people smoking a booth to break the no-smoking, no-eating rule toward the end of the week, she acknowledged.

“But remember, you are there to meet and greet customers and prospects. People won't stop if they see you sitting down and eating.”

Exhibitors must fight end-of-the-week fatigue as well, she said.

“Greet people standing up,” no matter what, she advised. Otherwise, people will think you are too tired to talk with them.”

Though exhibitors don't have control at all times over their exhibit, they should still strive to organize and manage every aspect they can, Ms. Edwards said.

“Don't take anything for granted—that's my best piece of advice,” she said.

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**Business Insurance**

## Dampened mood

Continued from page 51

"U.S. companies are afraid of European security," said Peter L. Rhulen, vp of Frontier Insurance Group Inc. in Monticello, N.Y. "A lot of people are afraid of the wrath of S&P and Best," he said, referring to Standard & Poor's Inc. and A.M. Best Co.

"And everybody is afraid of Lloyd's," he commented.

Frontier purchases all of its reinsurance from either U.S. reinsurers or the U.S. branches of overseas reinsurers.

Robert F. O'Leary, president and chief operating officer of intermediary Willcox Inc. in New York, speculated that the weak dollar may have kept U.S. insurers and reinsurers home. "The U.S. dollar is a Third World currency over here," he quipped.

While the Rendez-Vous traditionally has given insurers, reinsurers and brokers a chance to talk about year-end renewals, many people this year had other agendas.

Several executives said more accountants and lawyers than ever were on hand because of the growing number of insurers in runoff. The Rendez-Vous is a golden opportunity for those running off an insurer to meet with many of the cedant's reinsurers in one setting.

Among those using the Rendez-Vous as an opportunity to discuss runoff issues was Richard A. Adler, executive vp of underwriting man-

ager Shand, Morahan Inc. in Evanston, Ill. Evanston Insurance Co., which is managed by Shand, is running off a book of liability policies written in the 1980s (*BI*, Aug. 17).

"We're here on a runoff basis, not a continuing business basis," Mr. Adler said, explaining that "you have to keep people informed" during a runoff.

Liquidators like Burleigh Arnold, the receiver for Transit Casualty Co., also attended the Rendez-Vous to discuss reinsurance collections.

Actuarial and accounting firms like Coopers & Lybrand send representatives to Monte Carlo to be seen, to touch base with current clients and to publicize their services to reinsurers and law firms, said Frederick O. Kist, managing partner-casualty actuarial of the firm's risk management consulting practice.

In particular, "Europe is waking up to the need for non-life actuaries," Mr. Kist said. More U.S.-style litigation in Europe "will slow down the settlement process. You need an actuary to estimate how losses will trend out."

More credit insurers also are attending the Rendez-Vous, especially government agencies, said Louis Habib-Deloncle, president of the P.A.R.I.S. political risk pool. "They are organizing their contacts with the reinsurance market."

Mr. Habib-Deloncle said he attends each year to tell insurers and reinsurers "what political risk is. It takes year after year, but we're not

doing bad," he joked.

The organizers of the Rendez-Vous hope to ensure that the names in next year's registration book match up with the people who actually attend by insisting that the registration fee—500 francs or roughly \$100—be paid in advance.

Reinsurers and insurers, though, may just pay the fee in advance—even if they did not plan to attend the conference—to be listed in the registration book.

Meanwhile, the organizing com-

mittee of the Rendez-Vous, led by Assurances Generales de France, produced some figures on the contraction this year in the insurance and reinsurance markets, which kept crowds down in Monte Carlo.

"Recent years have been flagrant in natural disasters," said the organizers. This includes the \$4 billion in damage caused in the United States alone by Hurricane Hugo in 1989; the \$10 billion series of storms in western Europe in 1990; Typhoon Mireille, which caused \$5 billion in

damage in Japan last year; a \$200 million storm that battered the west coast of Norway early this year; and most recently Hurricane Andrew, which caused at least \$8 billion in insured damage.

Last year alone, natural disasters cost insurers and reinsurers nearly \$11 billion in claims, according to the organizers.

Including man-made disasters like the Exxon Valdez oil spill in 1990, "this series of events following

Continued on next page

### SEPTEMBER CLOSINGS

issue: September 21  
**closing:** September 8  
 editorial feature: Reinsurance: Rendez-Vous Report  
 demographic section: Insurer Topics: Trade Shows/Exhibits/Special Events

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issue: September 28  
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 editorial feature: Workers Compensation — Directory: Safety Consultants & Rehabilitation Services

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issue: October 5  
**closing:** September 22  
 demographic section: Agent/Broker Topics: IIAA Conference Report

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 editorial feature: Benefits: Communication & EBC Award Profiles

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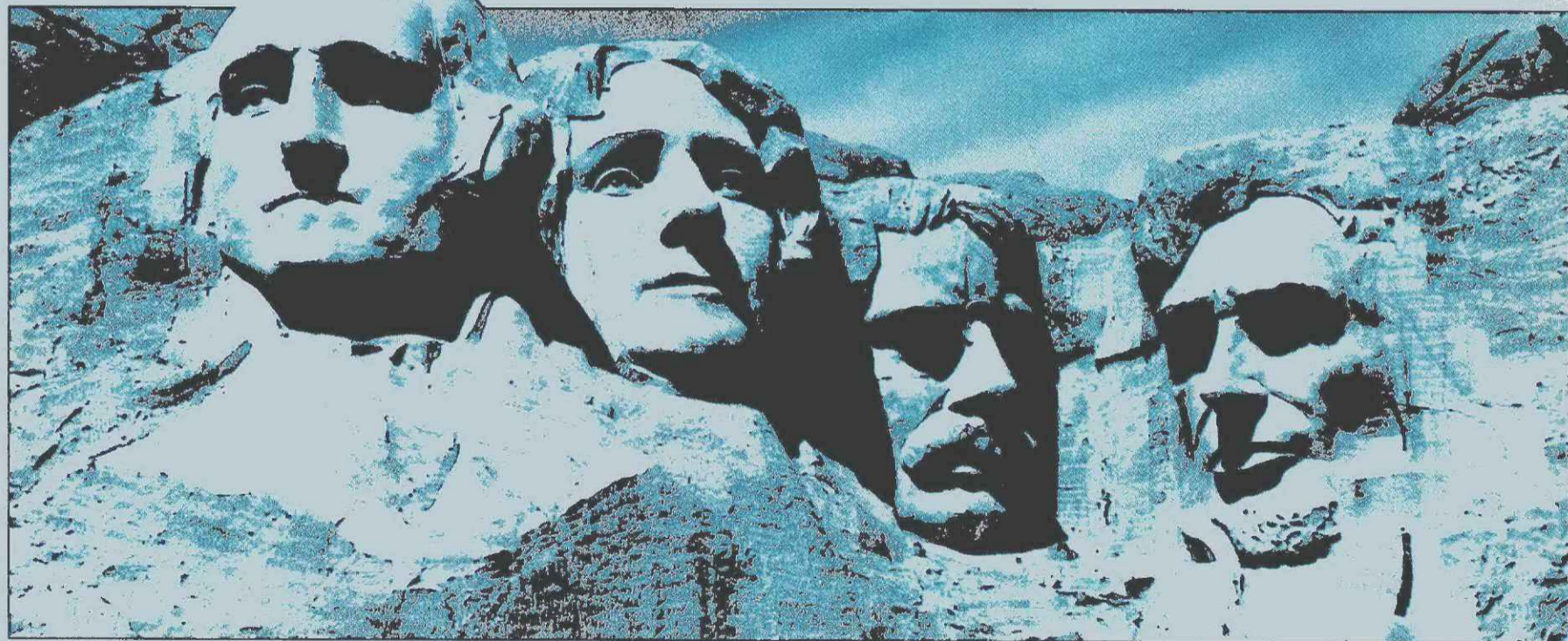
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### Dampened mood

Continued from previous page  
closely upon another has led to deteriorating results of reinsurers in 1989 and 1990, reaching hitherto unequalled levels of losses in 1991," said the organizers.

In Europe, low property rates—particularly in France, Germany, Spain and Italy—have aggravated the problem, they said.

As a result, there has been a major restructuring of the insurance and reinsurance markets in recent years to increase profitability, increase share capital and "accentuate professionalism," the organizers say.

This includes the leveraged buyout of American Re-Insurance Co.; the impending sale or spinoff of the property/casualty units of Transamerica Corp.; and the current public stock offering by Skandia America Reinsurance Corp., a unit of Skandia Holding A.B.

Major shutdowns and liquidations have occurred in the past few years, particularly in Scandinavia and London. Also, Lloyd's of London's capacity may be cut to between 8.5 billion pounds and 9 billion pounds (\$15.84 billion and \$16.77 billion) next year from 10.2 billion pounds (\$19.06 billion) this year.

Two companies stopped writing in the London market the week before the Rendez-Vous: Orion Insurance Co. P.L.C. and St. Helen's Trust Ltd., owned by Prudential Corp. P.L.C. (BI, Sept. 7).

Those closures are causing massive capacity reductions in the London and European markets, particularly for retrocessional covers but also for mainstream reinsurance.

Those who did attend this year's Rendez-Vous came to do business rather than to clock a holiday on company time and money.

"Every year we get together after Monte Carlo and question the value

of coming, and already we know this week's been extremely valuable," said Richard Shaw, chief executive of Lowndes Lambert Group Holdings Ltd. The London-based broker, which during the week uses the Moon Maiden II yacht docked in the Port of Monaco as its base, sent four executives to the Rendez-Vous this year, down from six in 1991.

"People are talking business down here (and) things are getting done earlier for year-end renewals," said Mr. Shaw, who compared this year's gathering with those in the 1970s when agreements were actually made in Monte Carlo. "This would have happened anyway, but Andrew pushed this along."

Others had a markedly different opinion.

"We didn't accomplish that much," said Willcox's Mr. O'Leary. "We didn't come back with many retros done. We didn't come back with any commitments."

Most insurers, reinsurers and brokers say they don't expect to make deals in Monte Carlo, but rather to gather information to use later in serious renewal negotiations.

"We're a big organization and we visit our clients in their offices, so we're not doing business here," said Balth Heyer, executive vp for Swiss Reinsurance Co. in Zurich. "But the clients want to talk to us—and there is also the social side."

The Baden-Baden reinsurance meeting in late October "is different," Mr. Heyer added. While chairmen and CEOs come to Monte Carlo to chat, "workers" attend Baden-Baden to discuss specific terms and conditions for reinsurance renewals in Europe, he said.

"We would be happy if Monte Carlo did not exist," he said. ■

### Hopewell avoids Andrew's worst

MONTE CARLO, Monaco—Hurricane Andrew won't have a devastating effect on Hopewell International Insurance Co.

The Bermuda-based property reinsurance pool will suffer, at most, \$1.5 million in losses because of Andrew, said Graham D. Brice, president of International Risk Management (Bermuda) Ltd., which manages Hopewell. The damage was suffered by a fast-food restaurant owned by an IRM client.

Hopewell provides IRM-managed captives with property reinsurance through a complex system of reinsurance treaties and facultative placements.

"Hurricanes never have had a big effect on Hopewell," Mr. Brice explained.

"We're in a different ball game. We've had our best year ever. We've had two years of solid profit."

However, things have not always been so rosy for Hopewell. In fact, the pool is still involved in the settlement of a claim stemming from a 1987 fire at a Hoechst Celanese Corp. plant in Pampa, Texas (BI, April 18, 1988). The loss had been estimated at about \$359 million by independent loss adjusters and at \$599 million by Hoechst Celanese (BI, March 30).

Negotiations are ongoing between various parties, including Hopewell's reinsurers, Mr. Brice said. "There is possibility of litigation in a Texas court, so they are more than happy to keep talking. Unfortunately, they are going to run out of things to say."

He added, though, that the case could be sent to arbitration before it is heard by the Texas court.

—By James M. Burcke



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# Town crier's agenda lighter in Monte Carlo

MONTE CARLO, Monaco—The Rendez-Vous de Septembre is a time for announcements, and this year was no exception.

However, the magnitude of the changes unveiled was not as great as in past years, when major mergers, acquisitions or new product offerings were announced during press conferences during the annual reinsurance meeting.

In fact, the only press conference held this year was the traditional press briefing held by the Rendez-Vous organizing committee.

Announcements made during this year's Rendez-Vous included:

- Alexander & Alexander Services Inc.'s appointment of Timothy C.J. Beauchamp as director of insurance and risk management consulting operations in Central and Eastern Europe. Based in London, he will oversee offices in Budapest, Hungary; Prague, Czechoslovakia; and Warsaw, Poland.

A student in Slavonic and East European studies who has worked in the insurance industry for the past 10 years, Mr. Beauchamp has spent the past 18 months as the first accredited Lloyd's broker in Poland.

Meanwhile, subsidiary Alexander Reinsurance Brokers Ltd. has appointed representatives in Japan for the first time, as well as in Hong Kong, Singapore and Colombia, said Chairman Ronald Iles.

- C.T. Bowring Reinsurance Ltd. and specialist LMX broker Winchester Bowring Ltd. will operate as of Oct. 1 as one amalgamated company under the new name Carpenter Bowring Ltd. C.T. Bowring Reinsurance Australia Pty. Ltd. will operate under the new name of Carpenter Bowring Pty. Ltd.

The "fundamental change" in the London excess-of-loss reinsurance market allowed Bowring to incorporate the two companies under one banner, said Hady Wakefield, chairman of Bowring Reinsurance, from his office in London.

- John Lock, the recently retired managing director of Mercantile & General Reinsurance Co. P.L.C., has joined Coopers & Lybrand Deloitte in London as a consultant "to identify opportunities for our insurance practice," said Partner Jeremy Dickson.

- Lowndes Lambert Group Holdings Ltd. has formed an in-

dependent brokerage in eastern Germany with a non-German executive and local employees to serve clients already in the area, said Chairman Richard Shaw.

Lowndes Lambert, continues to support its joint venture with Croatia Insurance Co. in Zagreb and invited Rendez-Vous participants to meet General Director Dalibor Kovacevic during the week.

In spite of the war in the former Yugoslavian states, "life goes on and he sees great opportunities," said Mr. Shaw. Property and liability insurance will be a growing market as will financial institution and shipyard coverage, he said.

—By Stacy Shapiro

## LBO won't hurt American Re: Exec

MONTE CARLO, Monaco—It will be business as usual for American Re-Insurance Co. after the leveraged buyout of the reinsurer from Aetna Life & Casualty Co. is completed within the next two months, according to a top executive at American Re.

◆◆◆◆  
**36th  
 Rendez-Vous  
 de Septembre**  
 ◆◆◆◆

The leveraged buyout will not drive ceding company clients away from American Re, stated Mahmud M. Abdallah, senior vp of the Princeton, N.J.-based company.

Several other executives attending the 36th Rendez-Vous de Septembre, though, said that brokers would be advising cedants to be wary of the direct-writing reinsurer's security after completion of the buyout, the largest in insurance industry history.

"I don't think that will happen," Mr. Abdallah said. "When you look at the earnings of American Re over the last 10 years, you don't have to be a financial genius to figure out that we won't have trouble keep-

ing up with our debt payments."

While conceding that American Re faces a psychological burden, Mr. Abdallah said that when American Re officials explain the LBO to clients, "they are satisfied."

And, he said, A.M. Best Co. has affirmed American Re's A rating.

However, Standard & Poor's Corp. last month lowered American Re's claims paying ability rating to A from AA+, the rating carried by other Aetna units. The downgrading reflected the debt that American Re will assume in the deal with Kohlberg, Kravis Roberts & Co.

"Who owns our potential," Mr. Abdallah said.

"We succeeded very well under Aetna, but the environment we created at American Re was to allow management to run the company in a successful way." That won't be changed by the LBO, Mr. Abdallah added.

—By James M. Burcke

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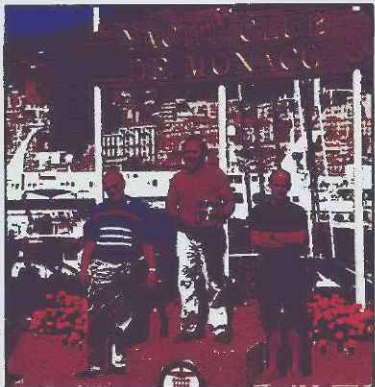


Photo by Kathryn McIntyre

Bruno Mondini of Lloyd Italo Assicurazione holds the first-place trophy after he skippered the Italian boat to victory in a regatta officially sponsored by the Rendez-Vous de Septembre. Jorgen Flemmer of Nordisk Reinsurance Co. A/S, left, took the Danish team to second place in the first-time event for J-24 boats, and Max Levavasseur of Abeille Reassurances led the third-place French boat. Following, in order, were crews from the Netherlands, Monaco, Great Britain, Austria, the United States and Switzerland, which prompted one sailor to comment: "Switzerland —first in reinsurance, last in sailing."

# Andrew buffets Berkshire

By JAMES M. BURCKE

MONTE CARLO, Monaco—Berkshire Hathaway Inc. may be the big loser when losses from Hurricane

Andrew are finally tallied, but the losses won't drive the company's reinsurance division out of the catastrophe coverage marketplace.

"Big" is how Ajit Jain, president of the company's professional liability and specialty risks division in Stamford, Conn., describes Andrew's hit on Berkshire Hathaway. "We'll have to write a lot of checks for Andrew. The number will be big."

On just one retrocessional contract, for example, the company could lose \$40 million. Berkshire Hathaway writes all of its cat coverage on a net-line basis.

Despite the loss, Berkshire Hathaway remains "committed to offering" catastrophe coverage, Mr. Jain said. "Before Andrew, we sold '93 covers."

And it will "absolutely be a market for third-event covers," he said. Third-event coverage is written for ceding companies that have exhausted their original catastrophe coverage and the one reinstatement that reinsurers normally offer.

Most of the Berkshire Hathaway covers affected by Andrew were written on a retrocessional basis.

Three types of covers written by Berkshire Hathaway will be ex-

posed to Andrew losses, noted Mr. Jain:

- Funded cat covers.
- "Market loss" covers.

These are catastrophe contracts that are triggered only when losses exceed the ceding company's retention and the overall insured loss caused by the catastrophe exceeds a pre-determined amount. The contracts written by Berkshire were triggered by a market loss of less than \$5 billion, Mr. Jain said.

"That book is hit very badly," he confirmed.

• Traditional catastrophe covers. "That's the wild card. How bad? Who knows?" Mr. Jain said.

He does know that Berkshire did not sustain a loss from Andrew on second-event covers or marine contracts. Second-event coverage is

written for a company that has depleted its original catastrophe limits.

A large part of Berkshire Hathaway's contracts have no reinstatements. The company will, though, sell 16-month covers to a company that has blown through its original catastrophe coverage, he said.

"If we sell a number of covers without reinstatements, then we can sell second- and third-event coverage," he reasoned.

While Berkshire took its biggest hit on the market loss covers, it will continue to write the coverage, Mr. Jain said. But it could take three steps when writing new contracts:

- Raise the so-called trigger point.
- Demand a one-loss deductible.
- Limit the coverage to certain geographical areas.

Berkshire is now offering \$250 million in aggregate catastrophe capacity, with more than \$100 million

in coverage available to the "right" ceding companies, Mr. Jain said. "I would rather put out a small number of big chunks."

The company will write fewer retrocessional contracts, since traditional catastrophe rates will rise and that will give Berkshire more even exposure throughout the world.

While Berkshire Hathaway "does not like" to lose money on its business, "we have no regrets," Mr. Jain said. "We look back and feel we may have gotten the pricing wrong."

But how high can catastrophe coverage rates go?

"If you are expecting one big disaster a year, a 70% rate on line is a good deal. You have to relate price to the loss cost. You can't look at price in isolation," Mr. Jain said, adding that he does not expect to see competition in the cat cover market.

While optimistic about the future, Mr. Jain conceded that the Rendez-Vous was "a bad week. The loss number keeps multiplying, and everyone says, 'Cheer up.' It's hard to cheer up when losses are big." ■

## Reinsurers urged to overhaul

By JAMES M. BURCKE

MONTE CARLO, Monaco—European reinsurers must radically redesign how they do business if they are

to remain competitive in a rapidly changing marketplace, a management consultant advises.

"Regardless of short-term cyclical changes, a permanent transformation of the reinsurance market is under way, with consequences that will be far-reaching for all market participants," said Paul Coombes, a director of McKinsey & Co. Inc. in London.

"Traditional tried and tested ways of competing yield progressively poorer results, and new opportunities arise for those who have vision."

And, as the reinsurance market evolves, "the performance gap between the winners and losers will dramatically widen in the years ahead," he predicted.

Mr. Coombes delivered the keynote presentation during a panel discussion on "Reinsurance at the Crossroads" at the 36th Rendez-Vous de Septembre. Three reinsurance company officials then responded to Mr. Coombes' remarks (see story, page 58).

Five interlocking factors supported the reinsurance market in its "golden age," he noted:

- Controlled or regulated primary insurance prices.
- Proportional reinsurance, as opposed to excess-of-loss contracts, that ensured mutual interest between ceding company and reinsurer.

• A book of business that was weighted toward actuarially predictable risks.

• A market in which reinsurers typically had much more capital than primary insurers.

• A "traditional partnership culture" that encouraged stable relationships between primary insurers and reinsurers.

Ceding companies and reinsurers stood to gain in this type of market. To reinsurers, the market was "essentially self-stabilizing," Mr. Coombes said.

And, if rates were set too low in  
*Continued on next page*

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the predictable layers of coverage or if unexpected catastrophe losses hit, "the community of interest with clients and the strength of those relationships allowed appropriate repricing over time to restore profitability."

No more. Today, he said, "Primary market pricing is everywhere under pressure from deregulation, increasing segmentation, excess capacity, new low-cost competitors and more sophisticated ultimate insureds, especially in the large corporate market."

Today's larger and more sophisticated primary insurers have increased their retentions and shifted to excess-of-loss reinsurance from traditional proportional reinsurance, which increases the "risk mix," he said. And ceding insurers feel less allegiance to their reinsurers, looking for markets that provide the highest security.

Reinsurers could reply to the current market challenge in several ways, he said. First, they could hope to wait out the cycle and seek a "short-term rebound in profitability." Rejecting this strategy, Mr. Coombes said reinsurers must be profitable throughout the cycle.

Reinsurers also could attempt to tap "undeveloped, emerging markets"—like Eastern Europe or Asia—in the belief that the old winning formula no longer works in more developed markets.

However, he said the new markets may not support enough business to compensate for the loss in the traditional market. Or, these markets could soon mature, leaving reinsurers facing the same problems they had in the traditional market.

"The essence of the management challenge facing reinsurers—particularly in Europe—is how to continue serving primary clients profitably in the traditional core markets," he said.

He noted that 20 of the largest European reinsurers from 1986 to 1990 averaged only a 1% rate of return on capital adjusted to market value after investment earnings are subtracted. For 10 large U.S. reinsurers, the rate of return in that period averaged more than 15%.

Companies will best meet their profit targets, he said, if they adapt quickly to the four "major driving forces" that are reshaping the reinsurance environment:

- Changing financial strength requirements. It will be more important to be able to write larger net lines. "With the average portfolio mix becoming riskier and retrocessional capacity less available, capacity and utmost financial credibility are of considerable value," he said.

Primary insurers will try to buy large amounts of reinsurance from a single reinsurer rather than assembling complicated reinsurance programs, he said. However, he noted that a large capacity is simply one qualification required to compete for certain types of business.

- Evolving buyer needs.

Even smaller reinsurers will be able to capitalize on opportunities in the changing market by responding creatively and flexibly to ceding companies' changing needs, Mr. Coombes said. Buyers increasingly will demand unbundled risk management and consulting services from reinsurers, he said. Ceding companies are also seeking creative "risk sharing instruments," particularly in financial reinsurance, where "boundaries of banking and insurance will progressively disappear."

As well, reinsurers should maintain relationships with reinsurance brokers, whose roles "may become more important," he said.

- Increased professionalism.

"The difference between competitors who are truly outstanding in

underwriting, marketing, claims and policy administration and those who are simply average can amount to up to 10 points on combined ratio performance," he said.

- New requirements by investors.

Many European primary insurers are becoming frustrated by the poor profit performance of their reinsurance subsidiaries, Mr. Coombes said. Investment managers and analysts are "clearly showing signs of discomfort" with the market's long-term earnings prospects.

Overall, the reinsurance industry faces a "huge leadership challenge for top management. The true test of leadership will be the ability to define a vision that is simple, credible and yet stretching and then to communicate this so it permeates the entire organization."

The panel discussion was moderated by Valerie Coes, managing director of AG Group in Brussels, Belgium. ■

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# Can reinsurers become more professional?

By JAMES M. BURCKE

Yes, say top executives, but much depends on cedants

MONTE CARLO, Monaco—Reinsurers can become more professional, but only if they can persuade ceding companies that professionalism has its price and that “the only good reinsurer is a profitable one,” a German reinsurance executive says.

Reinsurers can increase their level of professionalism in four key areas: underwriting, marketing, continuity and service, says Juergen Zech, chairman of Cologne Reinsurance Co.

At the same time, reinsurers must release common financial informa-

tion to both regulators and ceding companies and adopt standard accounting and actuarial procedures, says Jacques Blondeau, president-operations of SCOR S.A. in Paris.

“We have to develop the analytical tools to measure... financial strength so that our conclusions are trustworthy, comparable across national frontiers and provide our insurance company clients with the basis for reasoned decisions,” Mr. Blondeau said.

Meanwhile, the basic techniques that reinsurers have utilized in the past are still valid, but in order to succeed, reinsurers must receive the proper price for their products, contends Robert Martignier, a director at Swiss Reinsurance Co.

in Zurich.

The three executives participated in a panel discussion, “Reinsurance at the Crossroads,” at the 36th Rendez-Vous de Septembre. Each of the executives responded to a call by Paul Coombes, a director at management consultant McKinsey & Co. Inc. in London, for European reinsurers to adopt a “new winning formula” to meet changing market conditions and investor demands (see story, page 56).

In his remarks, Mr. Zech of Cologne Re agreed with Mr. Coombes that reinsurers must become more “professional” to prosper in a changing marketplace.

Mr. Zech was quick to point out that the term “professional rein-

surer” went beyond the traditional definition of one whose primary or sole business was reinsurance. Instead, he defined a “professional” as someone who “carries out his calling with a high degree of specialization, integrity and dedication.”

There is a need for increased professionalism in the four core functions of reinsurance, Mr. Zech said. They are:

- Underwriting. Experience—while crucial to recognizing and evaluating risk—is not the sole ingredient of professional underwriting, Mr. Zech said. Systems support is also crucial because it can allow the underwriter to determine the correct price for coverage.

And contract wording can be as

important as pricing, he said. A professional underwriter needs precisely worded treaty clauses at his disposal or legal experts available to advise him, Mr. Zech said.

“Experts must be suitably trained, data banks established and analysis systems set up,” he said.

Even companies writing minimum shares of business should be able to provide such services, Mr. Zech maintained. “In other words, professional underwriting today means above all the willingness and capability to offer and expand risk-oriented expertise,” he said.

- Marketing. The most important element of professional reinsurance marketing, according to Mr. Zech, is “the need to be available on the spot to advise and assist the customer, whenever and wherever he needs it.”

The maxim for reinsurance marketing staffs, he said, is: “Be global, think local.” Reinsurers must be able to communicate with a client daily, whether in person or by phone or fax. They must speak the customer’s language, understand the economic and legal environment in the markets in which ceding companies operate and, above all, have a sound knowledge of the strengths and weaknesses of the ceding company itself, Mr. Zech said.

“The only way we reinsurers can achieve this is to develop increasingly our capability to analyze thoroughly and assess the risks that threaten the customer,” he stated. In addition to insurance risks, these risks include the danger of failing to perceive new market trends, offering the wrong products and reacting too late to changing consumer demands.

- Continuity. Reinsurers must stand by their cedants in difficult times, Mr. Zech pointed out, adding that such cooperation is possible only if business partners are chosen with care.

Is the ceding insurer “willing to grant the reinsurer a share in his profits, or as the case may be, give him the chance to make good any losses that occur?” Mr. Zech asked.

In addition, to ensure long-term cooperation, a reinsurer must have “a high degree of financial strength,” he said. “The failings currently observed in the London market underline only too clearly just how important this factor is.”

- Service. Reinsurers must offer two types of services: traditional services, like responding promptly to cedants’ inquiries, quoting fair prices and providing risk assessment advice; and “services that go beyond the risk-bearing function” of the reinsurer, namely counseling and training services.

Among the “counseling” services are suggesting the proper retention, advising on the development of new insurance products and assisting the development of expert systems, he said. Training assistance could include specialized technical seminars.

According to Mr. Zech, relatively few reinsurers—perhaps only 10 or 15 worldwide—have the resources to be purely professional in all four key areas. “This may seem surprising initially, but in fact there is quite a straightforward explanation: ‘Professionalism’ sounds all very fine but it is also very expensive.”

To increase profits at a time of “enormous competition,” Mr. Zech suggested that reinsurers “unbundle” services that are not directly treaty-related.

“It is becoming increasingly common practice for direct insurers to charge their industrial customers for

Continued on next page

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Continued from previous page risk analyses and risk management counseling," he noted. "Is it not reasonable for reinsurers to ask as much of direct insurers?"

In his remarks, SCOR's Mr. Blondeau called for increased accountability on the part of reinsurers.

"Our clients have every right to ask themselves whether it makes economic sense to buy protection at current rates from reinsurance companies whose financial solidity can be called into question," he said.

"Regulators and clients have every right to expect a minimum of financial transparency from the reinsurance industry. They can no longer base their decision on only partial, or untrustworthy, financial information and analysis that is largely impressionistic," the SCOR executive pointed out.

Traditionally reinsurer solvency has been measured by premium-to-surplus ratios. But this is a "a very bad analytical tool" since it does not take into account loss reserves and liability levels, Mr. Blondeau said.

A second tool—comparing net premiums to the combination of surplus and loss reserves—is "more meaningful," he said. But it still fails to take into account whether a reinsurer writes long- or short-term business.

A third approach requires the working assumption that technical reserves are adequate, which can be verified by actuarial audits. To measure solvency this way, add capital and surplus, unrealized capital gains or losses by comparing market and book values, incurred-but-not-reported loss reserves and other provisions.

"The sum of these items reflects the real financial strength of the company and is then compared to its net underwriting premiums," Mr. Blondeau said. "It seems to me this approach gives the most meaningful results, provided, of course, that the information is available."

Mr. Blondeau cautioned that a reinsurer's capital must be evaluated in conjunction with its loss reserves.

"The ways in which reinsurance products are evolving and the increasingly demanding requirements of our clients will inevitably lead to the elimination from the market of those reinsurers which lack the required financial strength. And this financial strength can no longer simply be measured on the basis of a company's capital," he said.

The third panelist, Mr. Martignier of Swiss Re, bemoaned the competitive state of the current insurance and reinsurance markets.

"There is an inequilibrium between premium and risk," Mr. Martignier pointed out. "There are fluctuations in the number of claims, but that has had no effect on rates."

Part of the problem, he said, is that there is no longer a "parallelism" between the risk written and the premiums charged by insurers and reinsurers.

In other words, "the good risks no longer pay for the bad," he said.

Pollution lies at the root of some reinsurer problems. Underwriters face enormous difficulties in assessing environmental risks, and new legal requirements are provoking "upheavals," he explained. At the same time, catastrophes are increasing. "Actions of man are causing upheavals in the balance of nature," Mr. Martignier said.

Still, the Swiss Re executive said he remains optimistic. "We can face the challenges of the future," Mr. Martignier said. Basic techniques used by reinsurers "are still valid," but they must be refined to meet changing risks.

The panel was moderated by Valerie Croes, managing director of AG Group in Brussels, Belgium. ■

# Rising winds do not sink all ships

## Despite widespread Andrew woes, some specialty underwriters thriving in 1992

By JAMES M. BURCKE

MONTE CARLO, Monaco—While many insurers and reinsurers are



36th  
Rendez-Vous  
de Septembre



hanging their heads under the weight of Hurricane Andrew claims, some that write specialty lines of business are reporting

1992 will be a good year.

For example, Capital Re Corp.—which specializes in reinsuring financial guarantees, especially municipal bond insurance—is boasting "very successful operations" for 1992, Michael E. Satz, chairman and chief executive officer, said at the 36th Rendez-Vous de Septembre.

Earlier this year, New York-based Capital Re completed an initial public offering of 6.3 million shares,

or 43% of its stock, which produced net proceeds for Capital Re of \$61.3 million (*BI*, April 13). Of that amount, \$52 million was contributed to capital while \$4.7 million was used to increase its stake in Credit Reinsurance Corp., a Bermuda-based affiliate, to 48.5% from 28.2%.

Including the proceeds of the stock offering, Capital Re's surplus rose to \$266.1 million as of June 30,

up 40% from \$190.1 million as of Dec. 31.

Capital Re is likely to go forward with a \$60 million to \$80 million public debt offering before the end of the year, Mr. Satz said. The proceeds from this offering also will be added to capital.

The offering will increase the company's leverage from 0% to 15% to 20%, still a "very conservative"

*Continued on next page*

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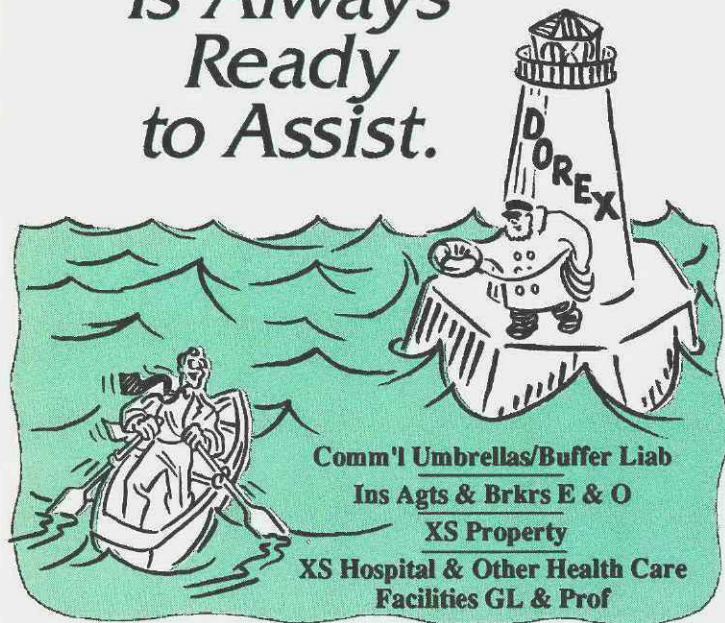
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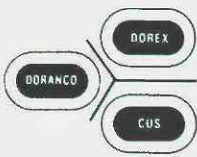
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## Specialists

*Continued from previous page level, said Mr. Satz.*

Capital Re requires ever-increasing amounts of capital because, as a financial guarantee underwriter, it must match capital with the issues it reinsures "for regulatory and rating agency purposes," he explained. Only when an insured bond matures or is called can the capital be reallocated to support other insured issues.

Mr. Satz reports that demand for Capital Re's coverage is strong this year because of "record demand" for municipal bond insurance.

More municipalities are issuing bonds because of increased infrastructure repairs and municipal services. In addition, many municipalities are calling old bonds in order to reissue them at today's low interest rates, he said.

In turn, bond buyers are seeking insured bonds to generate "high-quality, fixed income that is AAA-rated," he explained.

Capital Re has AAA claims-paying ratings from Standard & Poor's Corp. and Duff & Phelps Inc. and an Aaa rating, the highest, from Moody's Investors Service Inc.

Gross written premiums increased 15.7% to \$40.4 million in the first six months of 1992. Net income in the first half increased 42.3% to \$20 million in 1992, from \$14 million in 1991.

While Mr. Satz acknowledged a widespread impression that municipal finance risks may not be the safest to insure, citing the much-ballyhooed near-bankruptcy of the city of Philadelphia, he noted that defaults among municipalities have been minimal.

However, he did point out that there is a "certain deterioration of credit quality in the United States," mainly in corporate issues, which make up a "small portion" of Capital Re's book of business.

For example, Capital Re and Credit Re did have some exposure to Eurobonds that were secured by a New York building owned by the now-bankrupt Olympia & York Development Ltd. (BI, May 25). Capital Re announced in May that the claim would lower its 1992 after tax profits by \$1.5 million.

Mr. Satz said that Capital Re would like to increase its European business.

"We very much remain committed to global opportunities, but we are disappointed with the timing," he said. European business "is developing slowly and is developing inconsistently in terms of price," he explained, adding that the margins on this business are "sometimes thin from our perspective."

Still, Capital Re has participated in the reinsurance of European mortgages, mortgage pools and credit receivables, he said.

Another company not bemoaning the state of the market is Frontier Insurance Group Inc., which primarily writes specialty liability programs.

"People who can accept a specialty book through a general agent or a managing general agent are doing well," explained Peter L. Rhulen, vp of the Monticello N.Y.-based company.

The key, Mr. Rhulen said, is to know how to write specialty business.

"Unless you are prepared to do business with an MGA, you aren't going to be very successful in specialty business," he said. "The expertise doesn't reside in the company market."

While many insurers are wary of writing business through MGAs, recalling that some of the insurance insolvencies of the mid-1980s were traced to fraudulent activities by

some MGAs, Mr. Rhulen generally does not share those concerns. "If you think all MGAs are bad, you're wrong. There are more good ones than you think.

"A real crook is bound to beat you, but hopefully we have sorted out those kind of people," Mr. Rhulen said.

The formula appears to be working. Frontier reported a statutory combined ratio of 96% in 1991, down from 97.7% in 1990. Net written premiums rose 18.2% to \$82.6 million from \$69.9 million, while net income jumped 39.1% to \$15 million from \$10.8 million.

Mr. Rhulen sees opportunity in specialty liability insurance programs as long as the MGA that underwrites the business has the expertise necessary to properly write the account. Often that expertise cannot be found in-house.

For example, Frontier is looking into specialty drug liability insurance programs, under which it would write product liability insurance for specific types of generic drugs made by small manufacturers.

To properly write such coverage, the MGA must contract with a biochemical engineer to attest to the efficacy of the drug, Mr. Rhulen pointed out. "You must have someone with the necessary expertise to do it right."

Another area targeted by Frontier

**'People who can accept a specialty book through a general agent or a managing general agent are doing well,' says Peter L. Rhulen. 'Unless you are prepared to do business with an MGA, you aren't going to be very successful in specialty business.'**

is medical equipment manufacturers, "70% of which are small guys," he said, calling this line of coverage "big-premium business."

Frontier won't shy away from smaller-premium business. For instance, the insurer writes product liability insurance for manufacturers of archery equipment. "You don't need a lot of premium, and you can still do well," he said.

"We are looking at very many programs—as varied as they can be," Mr. Rhulen commented.

Frontier is not planning to raise its rates this year, and it does not expect its reinsurers to increase its reinsurance costs, he said.

"Nothing has changed to make us raise our rates; we know our business," he said. And, "Our reinsurers make money; they are really happy with us."

Political risk are having some reinsurance problems: The huge losses faced by the world reinsurance market are causing capacity to tighten for them.

"When there are negative results, companies start to eliminate specialty lines," said Louis Habib-Deloncle, chairman and president of the P.A.R.I.S. political risk insurance pool in Paris, which is an affiliate of Unistrat Holding BV of Amsterdam.

"We definitely see companies that are contracting their capacity," he said, estimating that marketwide political risk capacity has contracted by 30% to 40% this year. He predicted that marketwide capacity will drop to about \$40 million per risk by year end, compared with \$50 million to \$60 million previously.

"It will make it harder to complete a placement," he said, noting that political risk capacity at Lloyd's of London has dried up so that only one syndicate is willing to lead political risk insurance policies. The contraction is affecting

P.A.R.I.S., which writes coverage in more than 80 nations, because "some companies in the pool no longer want to write political risk," Mr. Habib-Deloncle said. The capacity offered by the pool has dropped to \$10 million per risk from \$12 million," he noted.

However, while some companies no longer want to write political risks through P.A.R.I.S., the pool has attracted COFACE, the French government political risk insurer, and Ducroire, the Belgian government counterpart, as reinsurers.

Because capacity in the private political risk insurance market is shrinking, Mr. Habib-Deloncle suggests that exporters use their captive insurers to porters high-level capacity of political risk. By doing so, companies not only will generate needed capacity, but they will "have a better understanding of the risk," he said.

In addition, captive participation "will help further amicable settlements," he said. If exporters participate in the coverage of their own risks, "they will put in more efforts to negotiate."

While capacity is shrinking, the premium volume written by P.A.R.I.S. has held steady at \$20 million in 1991 and 1990. "I am definitely not chasing premiums" to increase volume, he said.

Adding to political risk insurers' problems is generally "more uncer-

tainty in the world," he said. To combat this uncertainty, P.A.R.I.S. is beginning to write some coverage for only one-year periods, compared with the standard three years, "because changing conditions are hard to foresee," he said.

The only part of the world where political risk appears to be moderating is South America, he said. "Even Brazil could improve" despite the political crisis that now exists there, he said.

Exacerbating political risk insurers' headaches is the broadening use of trade embargoes by the United Nations. Embargoes, Mr. Habib-Deloncle contends, can unfairly halt international trade for political ends. "They never work."

P.A.R.I.S. policies cover losses caused by U.N. trade embargoes like those now in place against Iraq and Serbia. However, "we will extend the waiting period"—the time that must elapse before a claim can be made—on a flexible basis "so that the private company can find an equitable settlement," he said.

Exporters still want to deal with nations like Iraq, he emphasized. "Is it our role to carry that kind of risk?" he asked, referring to U.N. embargoes. "It is time for the private entrepreneur to go back to the U.N. and say, 'Let's try something workable.'"

Mr. Habib-Deloncle also noted that submissions received by Unistrat Holding's U.S. affiliate, New York-based Unistrat Corp. of America, are increasing (BI, Feb. 3).

"Things are developing well considering that we only started underwriting in April," he explained.

Unistrat of America underwrites political risk coverage in the United States on behalf of The Unity Fire & General Insurance Co. of New York, a subsidiary of SCOR S.A. SCOR is a major shareholder in Unistrat Holding and is a reinsurer of P.A.R.I.S. ■

# Steady course seen for airline renewals

MONTE CARLO, Monaco—Airline hull and liability insurance premiums are expected to hold steady at fourth-quarter renewals.

## ◆◆◆◆ 36th Rendez-Vous de Septembre

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Quotes being finished last week for United Air Lines Inc. and some overseas airlines indicate that prices will remain level or at most rise slightly, but not nearly at the 100% to 200% rate of

increase common last year. Seventy percent of the world's airlines that renew their coverage between Oct. 1 and Dec. 31. Aviation insurance brokers and underwriters attended the 36th Rendez-Vous de Septembre earlier this month to discuss aviation reinsurance capacity for 1993. "The impression we're getting is that (reinsurers) are waiting for Oct. 1 renewals with the majority of the world's airlines up in October and November" before making decisions

about 1993, said John Bassett, chairman and managing director of aviation for London-based broker Nelson Hurst Group Ltd. Hull and liability rates for airlines that have renewed since July 1 have risen between 20% and 60%, "but capacity is still around," he said. But the closure of London aviation underwriter Orion Insurance Co. Ltd. "will be a loss to the market," he said. Some executives believe that Orion accounted for 5% of the

world's aviation insurance capacity. Other players should fill the gap left by Orion, brokers said. They include British Aviation Insurance Co. Ltd., the Ariel syndicate at Lloyd's of London, and Lloyd's underwriters Tony Medniuk and Richard Maylam. Aviation insurers are wondering whether there will be enough excess-of-loss reinsurance to protect their portfolios during year-end renewals, said Mr. Bassett. But the excess-of-loss reinsurance "boys" won't know how much capacity they can offer until year end, because the retrocessional market has

virtually disappeared, he said. General aviation underwriters, meanwhile, have been hit by losses from Hurricane Andrew, with U.S. aviation underwriters taking the brunt of the loss, Mr. Bassett said. One American broker told Mr. Bassett that general aviation losses could hit \$500 million, though he believes that figure may be high. Mr. Bassett returned to the Rendez-Vous this year after a six-year absence because, he said, "the market's at a bit of a crossroads." "We could see some more changes by year end," he said.  
—By Stacy Shapiro

# Insurers question reality of EC unity

MONTE CARLO, Monaco—While the 12 member states of the European Community are supposed to become one unified trading body in all areas of business—including insurance—by

## ◆◆◆◆ 36th Rendez-Vous de Septembre

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year-end, reality will fall short of that goal, insurance industry executives say. One of the main topics at the Rendez-Vous de Septembre was looking ahead to the French referendum on the Maastricht Treaty, which is designed to bring more monetary, trade and political unity among the E.C. nations.

The Sept. 20 vote could determine the future of the European Community. If the French approve the treaty, Europe is expected to continue down the road toward unification. A rejection could leave the future of the community in doubt.

The drive to unify European economies has triggered many mergers and acquisitions in the insurance industry, as insurers and brokers try to position themselves to trade in a unified market.

In addition, E.C. directives have been introduced that allow commercial insurance to be placed across borders; standardize insurance accounting; and impose new environmental liability rules.

However, Ronald Iles, chairman of Alexander Howden Reinsurance Brokers Ltd. in London, said he has never thought that "1992" would have any effect on reinsurance.

"Reinsurance has always been cross borders. It's never been controlled to the extent that direct insurers have," said Mr. Iles.

"I think what everyone thought would happen was that there would be much more insuring of individuals and businesses (by underwriters) not necessarily in the country of origin...," he said. "That's been happening in a way through mergers and acquisitions," he said, particularly by French insurers.

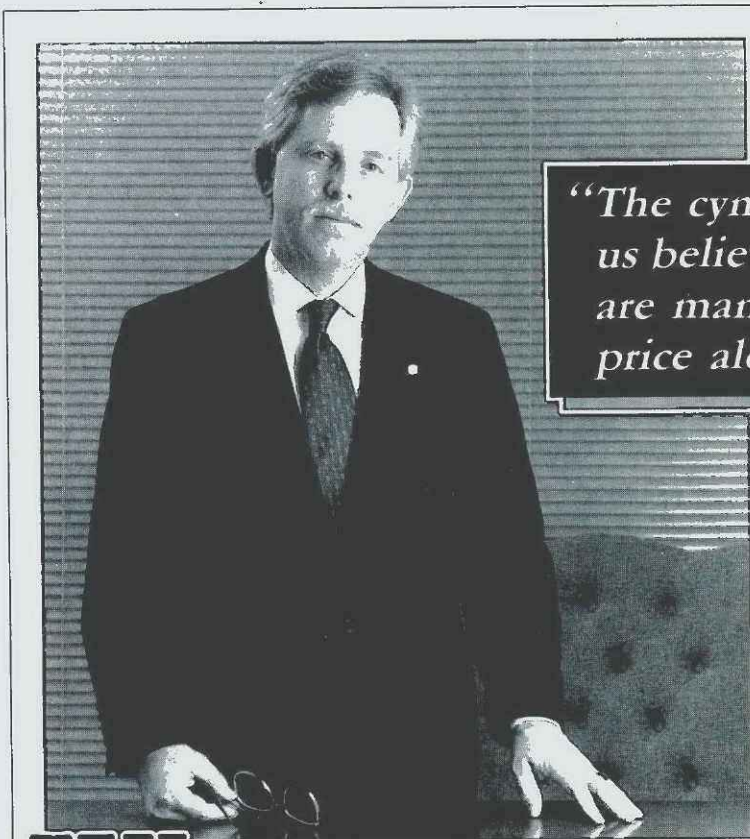
A French "no" vote on the Maastricht Treaty "would put back the idea of a common currency, which business people would generally welcome. If you don't have a Maastricht treaty, then you'd have to revisit the whole E.C. scene, I suppose," he said at the Rendez-Vous, before last week's turmoil in the European currency market.

Meanwhile, Germany is responding to E.C. directives by introducing legislation that calls for many companies to buy environmental liability insurance for soil pollution.

But insurers and reinsurers are wary about offering the coverage.

"We're afraid this law will be expanded into other E.C. markets," said Balth Heyer, executive vp for Swiss Reinsurance Co. in Zurich, noting that reinsurers are fighting for a German policy wording they can accept as well as amendments to the German legislation.

—By Stacy Shapiro



*"The cynics would have us believe that markets are manipulated by price alone."*

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# London market in peril

## As capacity slumps, experts question market's future role

By STACY SHAPIRO

MONTE CARLO, Monaco—The role of the London market in the world insurance and reinsurance arena is being questioned following massive reductions in the market's capacity, both at Lloyd's of London and the London company market.

In particular, many from Europe and North America attending the Rendez-Vous de Septembre believe that London will be harder hit by Hurricane Andrew than was first indicated, which could jeopardize

London's role in the worldwide market (see story, page 1).

However, London market executives downplayed Hurricane Andrew's effect on their companies during the annual reinsurance meeting in Monte Carlo.

Restructuring will continue in the London market, London executives agree. But the LMX "spiral" market is now massively curtailed; problems are recognized; and London will continue to be the world's largest single insurance market, they claim.

However, "I get the impression that London and Lloyd's is in bigger trouble than they expected because of Hurricane Andrew," summed up Balh Heyer, executive vp for Swiss

Reinsurance Co. in Zurich.

There is a "lack of confidence" in the London market as capacity shrinks following five years of natural and man-made disasters, he said.

In particular, "I fear for Lloyd's," he said. Although some syndicates are OK, others "are in bad shape."

Following Hurricane Andrew, "there is an ongoing concern about Lloyd's problems and the impact of losses on the London company market," added Robert Robinson, general manager (non-life) for Swiss Reinsurance Co. (U.K.) Ltd. "People are nervous that some companies (with lower levels of capital) may be vulnerable. People are reluctant to suggest names," though they do

have lists of companies they believe may not be financially secure.

"You will see some more people disappearing from the London market, and it's a good thing," added Brian Prevost, chairman of Swiss Re (U.K.).

Those who survive in London must be in control of what they underwrite and take an interest in the associations that represent them, said Mr. Prevost.

Some Rendez-Vous participants believe that the London market could disappear under the weight of its problems. But Mr. Prevost doubts that will happen. "Where is there another marketplace like London with thousands of brokers and underwriters from all over the world? There's nowhere anywhere else in the world like it. And marketplaces do attract business. . . just like street markets.

In the last two years, many major London insurance companies have

either ceased underwriting or merged following the unprecedented series of disasters.

This year alone the closures include:

- The liquidation of Trinity Insurance Co. Ltd. and Bryanston Insurance Co. Ltd.

- The recent shutdown of Orion Insurance Co. P.L.C. by its parent, Dutch insurer Nationale-Nederlanden B.V.

- The decision by Prudential Corp. P.L.C. and Pearl Assurance P.L.C. to stop writing marine business through St. Helen's Trust Ltd Prudential earlier this year also stopped writing non-marine business.

Also gone from the market in the past few years are CIGNA Reinsurance Co. (U.K.) Ltd., Chancellor Insurance Co. Ltd. and Yasuda Fire & Marine Insurance Co. of Europe.

Other London insurers have merged or are looking for new parent companies, including Victory Reinsurance Co. Ltd. and Municipal General Insurance Ltd.

Major U.K. stock insurers also suffer from disastrous results, which are largely produced by massive mortgage guarantee liability losses resulting from plummeting real estate prices.

More publicity, however, is focused on the troubles at Lloyd's.

Lloyd's expects its 1993 capacity to drop to between 8.5 billion and 9 billion pounds (\$16.49 billion and \$17.46 billion) from 10.05 billion pounds (\$18.79 billion) this year.

"Traveling around the world, it's a standard question—what's happening to Lloyd's," said Jeremy Dickson, a partner at accountant Coopers & Lybrand Deloitte in London.

"Lloyd's and the London company market need two good years (of profit) in 1992 and 1993 or they could be in trouble," said Nicholas Davenport, managing director of Willis Corroon Continental Europe Ltd. in London and a Lloyd's member. "People like me won't stay around if there are five consecutive years of loss."

Mr. Davenport was hoping to make about a 10% return on his capacity as a Lloyd's member this year, noting that he has been a member for 13 years and has not made any money over that time. "If 1992 is not a profit, it is a worry."

The problems at Lloyd's are causing uncertainty in the market.

"We know Lloyd's will be there, but we do not know how much capacity it will supply," said Robert F. O'Leary, president and chief operating officer of reinsurance broker Willcox Inc. in New York.

Others noted they aren't putting as much reliance on London.

American Re-Insurance Co., for example, has cut its reliance on the London market for catastrophe coverage, said Mahmoud M. Abdallah, senior vp of the Princeton, N.J.-based reinsurer.

While American Re five years ago purchased 90% of its cat cover in the London market, it has cut that share to about 20%, he said. Another 20% of the coverage is placed with U.S. reinsurers, with the remainder placed with other reinsurers around the world that, in turn, support American Re.

Mr. Abdallah said there were two major reasons why American Re reduced London's participation in its cat cover. First, American Re thought it was being treated opportunistically when its rates were increased even though its loss record was good. Secondly, the company wanted to place more of its coverage with its network of clients throughout the world.

Representatives of the London  
*Continued on next page*

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Continued from previous page market attending the Rendez-Vous were bullish about the market's future, despite questions from others. "The demise of Trinity and troubles at Lloyd's have upset people... but there is not an overall concern about London market security as a whole," said Richard Shaw, chairman of Lowndes Lambert Holdings Group Ltd. in London. London responds better to catastrophic losses than any other market, said Mr. Shaw. There is also new capital in the market, including a 15 million pound (\$28.5 million) boost in capital at Sphere Drake Insurance P.L.C. With the demise of the LMX retrocessional market, ceding companies are paying "huge rates on line" and retaining more exposure, so there will be "a sensible return on capital," he said. Meanwhile, Lloyd's introduced many changes that will improve the market, noted some of the Lloyd's representatives in Monte Carlo. "I don't see a collapse of Lloyd's but a different Lloyd's," said Dennis Purkiss, chief executive of underwriting agency group Merrett Holdings P.L.C. "There are problems in Lloyd's that are so clearly catalogued that there is no proof that Lloyd's is crumbling. Provided we maintain members' confidence, Lloyd's won't crumble." Lloyd's will need corporate capital to boost its capacity in the future, said Mr. Purkiss, citing an idea the Lloyd's task force introduced earlier this year. "It's a necessity." Lloyd's is already allowing corporate capital access to the market by allowing "consortium underwriting" whereby a Lloyd's underwriter can write for both his syndicate and other London market underwriters, he said. Lloyd's also is allowing syndicates to write 25% above their premium volume limits next year if they have quota-share reinsurance to back that extra volume. Mr. Purkiss was in Monte Carlo specifically to "talk corporate capital" to certain reinsurers to line up quota-share reinsurance for Merrett syndicates for 1993. "There are enormous changes (at Lloyd's) and the market will continue to evolve," added Lloyd's underwriter Nigel Burton. "The market needs to give profits that the members expect." Mr. Burton has been the underwriter for a small catastrophe excess-of-loss reinsurance syndicate 1114 managed by Cassidy Davis Underwriting Ltd., which was established in 1989 and has kept strict records of its aggregate exposures. The syndicate reported an overall loss in 1989, but cash calls on members were not required. The syndicate expects to post a smaller loss in 1990 and a small profit in 1991. Recently, syndicate 1114 merged with syndicate 929, managed by Hayter Brockbank International Ltd., and a joint venture company—Cassidy Brockbank Ltd.—was formed to manage the syndicate. The syndicate still will be known as 1114, with Mr. Burton as underwriter. The syndicate, which also will write personal accident, kidnap and ransom, and extended warranty insurance, is seeking capacity of 36 million pounds (\$68.4 million). In the mean time, the London market is trying to cut costs by consolidating backroom policy and claims processing facilities into one building. The Institute of London Underwriters is talking with the London Insurance & Reinsurance Market Assn. about merging their policy signing and accounting offices (BI, Aug. 31). Also, the ILU may move into the London Underwriting Center, into which many LIRMA companies will move next September.

Though the two groups may not merge, "we think that it would be better to occupy one building than two," said Victor Blake, chairman of CNA Reinsurance of London Ltd. Someday, the two may merge forming "one market association," added Mr. Prevost of Swiss Re (U.K.). "In time, that would be a very good thing. Others believe that one day the ILU, LIRMA and Lloyd's should merge to form one giant London market association. While a central clearinghouse may be established to process ILU, LIRMA and Lloyd's policies and claims, the merger of the three markets is more of an esoteric thought than a likelihood, said Mr. Prevost. Besides, there isn't a building big enough for all three markets, Mr. Blake said.

Editor James M. Burcke contributed to this report.

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# Scandinavian market worries executives

By STACY SHAPIRO

MONTE CARLO, Monaco—The dire problems in the Scandinavian insurance market sent a shiver

◆◆◆◆ through the 36th Rendez-Vous de Septembre, despite balmy weather on the Riviera.

◆◆◆◆ Mismanagement by some executives and the decline in the real estate, credit and financial markets in Scandinavia are primarily to blame for the serious troubles at UNI Storebrand A/S, Hafnia Holding A/S, Skandia Holding A.B. and other Nordic insurers, say insurers, reinsurers and brokers.

The problems generally have little to do with underwriting, they stressed.

"The whole Nordic group is in a muddle," summed up Jeremy Dickson, partner for Coopers & Lybrand Deloitte in London. "How it will shake out, I don't know."

The problems in Scandinavia "are reported to be not because of the insurance underwriting side but the other part of the operation: property (investments), the recession and so on," explained Ronald Iles, chairman of Alexander Howden Reinsurance Brokers Ltd. "You can say that the (crisis) was caused by external factors outside the insurance industry."

That all was not well in Scandinavia became readily apparent at the Scandinavian luncheon that Willis Corroon Continental Europe Ltd. hosts each year in Monte Carlo. Normally about 50 people show up; this year only 20 to 30 people attended, said managing director Nicholas Davenport.

The complex troubles began late last year. Norway's UNI Storebrand and Denmark's Hafnia teamed up with Sweden's largest bank, Skandinaviska Enskilda Banken and unnamed Finnish and European com-

panies, to buy nearly 48% of Skandia.

Their goal was to establish a major Nordic insurance group, but the move was not welcomed by stock analysts or by Skandia management (*BI*, Dec. 2, 1991).

Before long the strategy collapsed, the victim of a quirk in Skandia's shareholder voting rules (*BI*, Feb. 10). Coupled with falling real estate values and major credit risk losses, the collapse created a massive upheaval in the Nordic market, plunging Hafnia and UNI Storebrand into the red and placing Skandia and other Scandinavian insurers on thin ice (see related story, page 13; and *BI*, Sept. 7; Aug. 31; Aug. 24).

Then, economic and monetary upheavals in Scandinavia—interest rates in Sweden recently rose to 75%—put further pressure on the companies' assets.

Also, during the week of the Rendez-Vous, Skandia and Trygg-Hansa SPP Holding A.B. were hit by the collapse of credit insurer Svenska Kreditforsakringaktiebolaget, in which both companies are shareholders. Trygg-Hansa also postponed its 3.1 billion krona (\$600 million) share offering because of the problems on the Scandinavian financial markets (*BI*, Sept. 14).

Looking back, "the idea of a Pan-Scandinavian company was probably correct given the economies of scale and competition from big European insurance groups. I think it's just the timing was wrong," said Mr. Iles.

"I feel sorry for what is happening," said an executive with a major European reinsurer. Storebrand was a strong company, although Hafnia had some underwriting problems, he said. "I hope Storebrand comes out of its troubles."

All the Scandinavian companies have had a "management crisis," said the executive. "But Skandia and Storebrand are good companies."

"Technically the Scandinavian insurance groups have been and are excellent technical units," added Axel Biagosch, director of Colonia Insurance A.G. in Cologne, Germany. "But if you think too big, it can be a mistake."

How could a small company like Hafnia have expected to take over a large company, like Skandia, with overpriced stock? asks Mr. Biagosch. "The elephant was too big to eat."

## Former Skandia official moves to M&G

MONTE CARLO, Monaco—John Engestrom gave up his job as chief operating officer for reinsurance at Skandia International Insurance Corp. to become managing director

◆◆◆◆ of Mercantile & General Reinsurance Co. P.L.C. in London for one main reason.

◆◆◆◆ "I moved essentially because I was not happy with the situation surrounding the ownership of Skandia" and the way that its reinsurance operations were going to be used "to unlock the deal," Mr. Engestrom said.

The Swedish insurance group in April offered to exchange its non-U.S. reinsurance operations for the Skandia shares held by UNI Storebrand A/S in an effort to solve problems caused by the botched takeover attempt of parent Skandia Holding A.B. by UNI Storebrand and Hafnia Holding A/S.

However, the deal was ruined after other components were rejected by Hafnia shareholders (*BI*, May 11).

Skandia also offered to acquire 100% of Hafnia, but this offer was rejected by institutional investors (*BI*, July 13; April 20; April 13).

The failed deals, combined with larger economic factors, triggered the current crisis in the Scandinavian insurance market (see related story).

Skandia early this month announced that it plans to concen-

trate exclusively on its direct insurance business once a sale of its Stockholm and New York reinsurance operations is concluded (*BI*, Sept. 7).

"Two things were wrong" when Skandia wanted to sell its reinsur-

ance operations to UNI Storebrand and buy Hafnia, Mr. Engestrom said. "It was the wrong buyer and the wrong price."

Skandia was going to pay too much for Hafnia and sell Skandia's reinsurance operations to the wrong buyer, he said.

While Skandia was contemplating these moves, Mr. Engestrom was contacted by a headhunter about the managing director's position at M&G, which opened with the retirement of John Lock.

Mr. Engestrom decided to accept the post, and he moved to London, where he had worked before. He began his new job on July 1.

The problems in the Scandinavian market may have vindicated Mr. Engestrom's decision, but he said: "I'm not gloating. I'm very sad and would much rather have not been

right."

The development of a pan-Nordic insurer, as envisaged by UNI Storebrand and Hafnia when they bought shares in Skandia late last year, could still become a reality, Mr. Engestrom said.

The administrators of UNI Storebrand and Hafnia might be willing to sell their insurance operations at a reasonable price, Mr. Engestrom speculated at the 36th Rendez-Vous de Septembre earlier this month, before Hafnia announced it would sell some of its subsidiaries (see story, page 13).

But, for the most part, Mr. Engestrom prefers to focus on his new duties. "I had the misconception of what M&G was until I came," he said. "I thought it was a distressed company. . .but it isn't."

M&G, which was rumored to be on the block for 18 months (*BI*, Sept. 23, 1991), has a strong life reinsurance operation that accounts for two-thirds of its premium volume, and it has long-term clients that will stick with the company, he noted.

He hopes to install modern management techniques and technology to improve M&G's performance.

But his aim is "to make as few decisions as possible" and allow his team of executives to run the show. Instead, Mr. Engestrom explained, he will design M&G's future strategy and explain it to M&G's parent, Prudential Corp. P.L.C., and stock analysts.

—By Stacy Shapiro

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## P&I clubs

Continued from page 3

passed along to "produce the sort of environment that the public seems to demand," Mr. McGowan noted.

Another source of uncertainty is reinsurance capacity for P&I clubs.

The number of claims that fall within P&I club retentions has increased because the clubs are unable to buy adequate reinsurance limits, according to Mr. Svensen.

"An important factor for the future of P&I clubs is the availability of reinsurance," he said. "Is it likely that the Lloyd's market will come back to where it was a few years ago? I don't think so, not in the foreseeable future at least."

A lack of reinsurance could cause clubs to significantly increase retentions, he said.

If that happens, some smaller clubs may not survive, Mr. Svensen suggested, because reserves would have to be boosted in accordance with the higher retentions.

Also, club members will become even more uncomfortable with the notion of paying each other's catastrophe losses if clubs are forced to retain more risk, he said.

As shipowners become fed up with paying cash calls, P&I clubs may encounter competition from other types of marine liability underwriters that do not impose these additional payments, Mr. Svensen

cautioned.

However, he said, P&I clubs offer shipowners several advantages over other underwriters: superior claims handling abilities and underwriting experience. The clubs are run by the members, he added, which means the insurer and policyholder share common interests.

A shipowner on the panel, however, pointed out several areas where P&I club members are dissatisfied with the way the clubs are run.

There are ways to promote more competitively priced P&I premiums, challenged Charles Kurz II, vp at Keystone Shipping Co. in Philadelphia and director and deputy chairman of the American P&I Club.

One way is to eliminate non-compete agreements among the clubs that stipulate if a shipowner leaves one club for another, it will receive the same rate, he said.

Clubs should also eliminate "release calls," which he said are used by the clubs to hold shipowners "hostage." Release calls are supplementary calls on shipowners, which are held responsible for the assessments even after they have left to join another P&I club.

"Shipowners should have the flexibility to change P&I clubs based on competitive rates and renewal terms," Mr. Kurz said. "It is

Continued on next page

# Boosting rates a priority before Andrew: AIG

## Greenberg defends memo, reiterates need for price hikes

By MICHAEL BRADFORD

HOUSTON—Boosting property/casualty insurance rates had been a priority at American International Group Inc. long before Hurricane Andrew and the controversy sparked by an internal memo, AIG's chairman says.

"I've been very public for the last three years that the property/casualty industry has to increase rates," said AIG Chairman Maurice R. Greenberg.

"Rates are just historically low," he said during the 1992 Houston Marine Insurance Seminar last week.

The philosophy of raising rates "did not begin with Hurricane Andrew," Mr. Greenberg said.

What did begin with Hurricane Andrew was a storm of controversy when Mr. Greenberg's son, Jeffrey W. Greenberg, executive vp-domestic general-brokerage, sent a memo to AIG company presidents and regional vps that the catastrophe provides "an opportunity to get price increases now" (BI, Sept. 14).

Because of the memo, which said the insurance industry would be unable to absorb Andrew-related losses without increasing rates, several insurance regulators said they would closely review rate requests from AIG as well as other insurers.

Indeed, Florida has frozen action on AIG rate requests and is asking all insurers to submit rates for approval under the state's use-and-file system. Louisiana will attempt to impose a similar moratorium on AIG rate requests next month.

Some states also are studying whether the memo violates anti-trust statutes. But Maurice Greenberg maintains that the memo merely restates his call for higher rates, and he says consumer advocates took the document out of context.

"To take an internal memorandum and use that as a basis for saying AIG has acted in a despicable way, I just think is contrary. . . to the facts," he said. "And before you start condemning a company, you ought to have all the

facts." Mr. Greenberg pointed out that AIG is not a personal lines insurer in south Florida, where most of the damage was sustained by homeowners, and writes very little personal lines coverage in Louisiana.

The memo "did not refer to property insurance rates," he noted. "It said rates have to be increased. That's what I've been saying for the last three years—hurricane or no hurricane."

Mr. Greenberg said that the company's "experience in Florida the last three years" shows a combined ratio of approximately 120%. "So clearly we need rate increases in Florida and other states as well," he said.

The memo, written the day Andrew hit Florida, said the storm "will cause extensive damage in southern Florida and, if it also strikes a populated area after picking up speed in the Gulf, may cause the insurance industry the biggest storm loss ever."

It went on to say, "We have opportunities from this, and everyone must probe with brokers and clients."

AIG and "all other insurers need rate increases," Maurice Greenberg said. "There's nothing secret about that."

Insurers will face their own rate hikes from reinsurers, he pointed out. "If you think that catastrophe reinsurance is not going up in price, think again. (That's) if it's available at all from responsible companies."

On another topic, Mr. Greenberg said the U.S. workers compensation insurance system is "out of control" and that insurers won't continue to write the coverage without making a profit.

"What was an exclusive remedy is no longer so in many states," he said. "Benefits have been broadened—for political reasons in most instances—and rates suppressed. It doesn't take a mathematician to figure out that that is not going to fly."

AIG already has decided it will not write workers comp or any other business in states that do not allow it a shot at making an underwriting profit, said Mr. Greenberg.

"There is no constitutional reason for us to put our capital at risk with no hope of achieving a rea-

sonable profit," he said. "AIG is a global company. We do very well outside the United States."

AIG is "not obliged to write any business that is not on a level playing field for the underwriter," Mr. Greenberg said. "We will continue to be very disciplined in that way."

All property/casualty insurers ought to be focusing on achieving an underwriting profit ahead of increasing market share, he emphasized. Many insurers believe

**'Before you start condemning a company, you ought to have all the facts,' Mr. Greenberg says.**

that investment income or sale of securities will take care of the bottom line, he said. But, Mr. Greenberg challenged, "If you don't make a profit in your basic business, which is underwriting, you won't make a profit for very long."

And insurers that believe market share is more important than bottom-line results will pay the price, Mr. Greenberg predicted.

Insurers that topped the list in "size and financial strength a decade ago" have lost business and are now ranked lower on that list because of failed management strategies that concentrated too heavily on market share alone, he pointed out.

There are very few AAA-rated insurance companies today, and "the list is growing smaller by the year," he observed.

And, as insurers continue to deliver poor returns, investors become disillusioned with the industry, he said.

"If you don't have a decent return, shareholders move on. And indeed they should because no business can prosper and grow" without a decent return on capital, Mr. Greenberg said.

Many property/casualty insurers are averaging about an 8% return on capital, including sales of securities, he noted.

"How can an industry as important as the property and casualty industry serve the needs of the nation and the people if its returns are so meager? And why would anyone long want to invest in companies that continue with such pitiful returns?"

Mr. Greenberg stressed: "The (property/casualty) industry, generally, ought to be working toward an underwriting profit."

In some classes of business, insurers may have to begin limiting their exposure by writing policies that will not respond if legislative changes broaden liability, Mr. Greenberg said.

"We're living in a country now where individual responsibility and accountability for our own acts has vanished," he explained. "Everybody must be rewarded one way or another if anything befalls them, regardless of their responsibility in the event."

The courts have changed and broadened statutes that determine

liability, he said.

An insurance underwriter writing a liability policy "is held accountable for achieving an underwriting profit," but laws often change the definition of liability after a contract has been negotiated with intermediaries and clients, Mr. Greenberg observed.

"How long can an industry survive in that kind of environment?" he asked. "It's virtually impossible for an underwriter today in many classes of liability business to predict what will happen in the future."

"I think we're reaching the point where we must consider whether we issue a policy in certain classes of liability limited to the laws that then exist. Any change that broadens those definitions in the future would not be covered," he said.

"I don't see how you can price a policy in today's environment in many classes of liability business and hold anybody accountable. What it is is simply turning to the deepest pocket—social engineering going on at its worst," Mr. Greenberg observed.

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## P&I clubs

Continued from previous page no longer acceptable for P&I club managers to impose the financial burden of release calls on the shipowner if the member elects to change clubs."

Mr. Kurz also said that "now is the time for P&I claim reform," and he suggested shipowners and club managers "take a more aggressive posture to see that the costs of P&I claims do not continue to rise."

Shipowners are struggling with higher claims partly because legal fees are increasing, said Mr. Kurz, who suggested that policyholders' defense costs must be more closely monitored.

He also said, "medical expenses for doctors, clinics and rehabilitation experts need to be monitored carefully to be sure that proper treatment is being provided."

"Of even greater concern to shipowners today is the potential exposure to occupational illness

claims. Why is it that our industry cannot better control the enormous price tag for claims due to loss of hearing, chemical exposure or asbestosis?" he asked.

"We have a legal system where speculative claims for such things as (injury caused by) exposure to petroleum emission can cause shipowners to spend thousands of dollars in technological improvements as well as costly defense proceedings which jeopardize the financial well-being of many shipowners," he said.

Also on the panel were Stephen J. Martin, a partner in London-based Alfred Stocken & Co., which manages The Steamship Mutual Underwriting Assn. (Bermuda) Ltd.; and R. Paul Hunter, a director of London-based The West of England Ship Owners Insurance Services Ltd., which manages The West of England Ship Owners Mutual Insurance Assn. (Luxembourg).

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# Profits slump for marine underwriters

Many economic factors contributed to 'crisis': Underwriter

By MICHAEL BRADFORD

HOUSTON—The marine insurance industry is facing its greatest crisis as inadequate rates and soaring claims, among other factors, combine to batter profits, says a Lloyd's of London underwriter.

"The severity of this crisis, no one doubts, is greater than anything previously experienced," said Mark Brockbank, marine un-

derwriter with Lloyd's syndicate 861, managed by Alston Brockbank Agencies Ltd.

"A return to long-term profitability will occur only if underwriters understand the causes of the crisis and are thereby able to take measures to ensure that these conditions do not recur," he said.

The current crisis that has many marine underwriters searching for profits was triggered by worldwide financial conditions in the 1970s and 1980s and has been exacerbated by more recent changes in the shipping industry, according to Mr. Brockbank.

Irresponsible underwriting by marine insurers also has largely contributed to the industry's woes, he charged at the 1992 Houston Marine Insurance Seminar last week.

"The 1980s were characterized by the breakdown of financial barriers and diminished regulation of financial markets in the U.S., U.K. and internationally," he explained. "Combined with other economic factors, this liberalization led to a sustained economic boom and a massive increase in capital."

Some of this new capital found its way to the insurance industry, and insurers found they could

write business at a loss that could be made up by healthy gains in investment income, Mr. Brockbank noted.

Marine insurance rates, along with prices in other lines of insurance, dropped as insurers engaged in cash-flow underwriting.

But, as capacity to underwrite marine risks was increasing, demand for the coverage was shrinking, according to Mr. Brockbank.

The reason for the reduction in demand for marine insurance stems from the oil crisis of 1974, he observed. "This bankrupted many of the famous names in shipping and created a crisis in the maritime world from which we are still feeling the effects."

As shipowners went out of business, marine underwriters saw premiums vanish.

With the loss of business, marine insurers in countries like France, Italy and Norway sought to offset their declining premium volume by expanding internationally, Mr. Brockbank noted. That move had the effect of "bringing those markets into direct competition with the London market and its pre-eminent position in this sector," he said.

Another factor behind overcapacity in the marine market was an abundance of cheap reinsurance, he said. That allowed direct underwriters to offer inexpensive

*Continued on next page*

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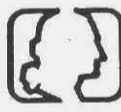
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The Iowa Comprehensive Petroleum Underground Storage Tank Fund Board hereby invites interested parties to request a copy of the Request For Proposal to be the administrator of the Iowa Comprehensive Petroleum Underground Storage Tank Fund Program. The Request For Proposal is now available. Responses to the Request For Proposal must be received by David Lyons, the chairman of Iowa's Comprehensive Petroleum Underground Storage Tank Fund Board, by 3:00 p.m. CDT, October 23, 1992.

The responsibilities of the UST Fund administrator include administration of approximately four thousand claims against the Fund's remedial account. The administrator must also handle the Fund's insurance program which currently includes over twenty-eight hundred policies and the Fund's loan guarantee program. The administrator must also administer all other aspects of the UST Fund Program under the direction of the UST Fund Board.

Copies of the Request For Proposal are on file with the office of the chairman at 6th Floor, Lucas State Office Building, Des Moines, Iowa 50319, for examination from 8:00 a.m. to 4:30 p.m. Monday thru Friday. Copies of the Request For Proposal may be obtained from the chairman's office at a cost of \$25.00 by writing the chairman at the above address or by calling 515-281-5523.

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**Business Insurance Circulation Breakdown\***

**Commercial Consumers**

Administrative: CEO's Presidents, and Owners	2,472
Vice-Presidents, General Managers and Other Administrative Personnel	4,160
<b>Financial:</b> Chief Financial Officers and Vice-presidents of Finance	2,637
Secretaries, Treasurers, controllers and other Financial Personnel	3,822
<b>Risk/Employee Benefits:</b> Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	14,998
<b>Sub-total</b>	<b>28,069</b>
Associations	416
Government, Unions and Educational Institutions	1,148
<b>Commercial Consumers</b>	<b>29,653</b>
Insurance Agents and Brokers	8,947
Insurance Companies	8,080
Accountants, Actuaries, Attorneys & Consultants	3,449
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,748
Others Allied to the Field	904
Single Copies	4
<b>TOTAL</b>	<b>52,785</b>

\* Source Business/Occupational breakdown of qualified circulation, May 25, 1992 issue, as submitted to BPA for June 1992 BPA Publisher's Statement.

Continued from previous page coverage with the knowledge that losses would be passed along.

However, the abundance of cheap reinsurance capacity—much of which was falsely created by spiraling London market excess-of-loss reinsurance—evaporated after several massive catastrophes, including the fire that destroyed the Piper Alpha oil rig, Hurricane Hugo, the grounding of the Exxon Valdez and the Phillips Petroleum Co. plant explosion.

"The losses incurred by reinsurers have forced them to withdraw from the market," Mr. Brockbank said. That caused a "dramatic reduction in capacity and a significant increase in cost."

Some marine insurers also are seeing losses rise because they have neglected to address the level of deductibles in recent years, he pointed out. As the cost of repairs and replacement of machinery has climbed, losses that were intended to be absorbed by policyholders' deductibles have pierced insurance layers, Mr. Brockbank explained.

In addition, an aging fleet, expensive new shipping technology and a trend toward hiring inexperienced crews have helped worsen conditions for marine underwriters, he noted.

Aging fleets have led to more frequent claims because of breakdowns and repairs, he said.

Proper maintenance has been lacking on newer ships that feature design changes and require updated maintenance procedures, Mr. Brockbank noted.

Newer vessels also are made of materials that need additional maintenance to protect against corrosion, he said. Failure to do so can lead to a weakening of the ship's hull. "When such vessels were acquired by owners who did not properly maintain them, the results were far more serious than had previously been the case."

While smaller crews can run the newer ships, they should be more sophisticated personnel who understand state-of-the-art electronics technology, Mr. Brockbank said. "Unfortunately, some shipowners, in an effort to reduce costs further, have taken to hiring cheap, less experienced crews."

He added that such crews often are made up of different nationalities, which causes communi-

cation problems that lead to accidents.

Mr. Brockbank also warned underwriters that they should be concerned about the flag a ship flies. Inexpensive "flags of convenience," often issued to shipowners by smaller nations in need of revenues, could be a warning that diligent safety requirements are absent, he said.

In addition, there is a growing trend toward ownership of ves-

sels by investors who are not shipping experts, Mr. Brockbank said. Those investors hire "third-party ship managers" that have no incentive except to run the ship as cheaply as possible, he asserted.

"Underwriters failed to take the employment of such managers into account when setting premiums. Indeed, underwriters drifted away from the essential concept that the identity and

record of the owner should play a part in determining the rate for that vessel."

Mr. Brockbank said a return to responsible underwriting involves "writing insurance for a gross underwriting profit by ensuring that the rate reflects the risk, setting deductibles at levels that exclude the small maintenance-type claim, paying careful attention to policy terms and discriminating both in terms of breadth and price of cover between those owners who maintain and operate their vessels to a high standard and those who fail to do so."

Many of the problems marine underwriters face "are already being addressed," he said. "And those outstanding, I have no doubt will be addressed directly." ■

**As the cost of repairs and replacement of machinery has climbed, losses that were intended to be absorbed by policyholders' deductibles have pierced insurance layers, says Mr. Brockbank, who calls on marine insurers to raise deductibles.**

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## Record crowd attends Houston marine seminar

HOUSTON—The Houston Marine Insurance Seminar continues to attract record crowds.

More than 1,100 registrants signed up for this year's meeting, held Sept. 13-15 at the Adam's Mark Hotel in Houston.

Attendees heard speakers including American International Group Inc. Chairman Maurice R. Greenberg address the state of the property/casualty insurance market and the controversy surrounding an AIG memorandum that followed Hurricane Andrew (BI, Sept. 14).

Also on tap was insurance attorney Donald J. Greene of the New York firm LeBoeuf, Lamb, Leiby & MacRae, who spoke on the possibility of federal regulation of insurers in 1993.

Mark E. Brockbank, a Lloyd's of London marine underwriter, detailed the crisis conditions facing the marine market, and a panel of experts took on the outlook for protection and indemnity clubs.

Next year's seminar will be Sept. 12-14 at the Adam's Mark. More information is available from Weldon Corbett at Energy Insurance International Inc., 2000 Bering Drive, Suite 900, Houston, Texas 77057; 713-783-6640.



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# Attorney sees federal role in regulation

By MICHAEL BRADFORD

HOUSTON—Congressional approval of some form of federal insurance regulation is a very real possibility in 1993, says an attorney who specializes in insurance law.

Federal regulation is not a new idea, said Donald J. Greene of Le-

Boeuf, Lamb, Leiby & MacRae in New York.

The topic has been discussed in congressional circles for years, he noted. However, it is becoming apparent that as more lawmakers call for stricter regulation of insurers, the federal government is more likely to be given an oversight role.

"This time there's a real possibility that the United States of America is going to regulate the insurance business," Mr. Greene said last week at the Houston Ma-

rine Insurance Seminar.

And many insurers are beginning to agree that at least some type of federal oversight is needed, he said.

Until now, there has not been much support from the White House for federal insurance regulation, despite the efforts of Rep. John Dingell, D-Mich., to show that state oversight is inadequate, according to Mr. Greene.

Rep. Dingell, who has held hearings on the ability of states to regu-

late insurer solvency, has introduced a bill, H.R. 4900, that would create a dual system of federal and state oversight (*BI*, April 30).

The issue has been further highlighted because of hearings on insurers and insurance mechanisms by the Senate Permanent Subcommittee on Investigations, chaired by Sen. Sam Nunn, D-Ga.

A report from Sen. Nunn's staff "supports much of what Dingell said he wants to do," according to Mr. Greene.

Despite increased congressional scrutiny of the insurance industry, it is likely that the White House will resist federal regulation for now, Mr. Greene said.

"They are essentially states' rights people. There is also tremendous political pressure on the outside not to change the system," he said.

Mr. Greene said such pressure comes from political leaders "who do not want to lose the patronage" and what he called "the industry of regulation."

Some political leaders fear the disruption of civil service jobs and a loss of premium taxes if states lose that regulatory "industry," Mr. Greene said.

But others will continue to press for federal regulation.

If such legislation is passed next year, the first and most politically acceptable target of federal regulation likely will be alien insurers and reinsurers, according to Mr. Greene.

While state regulators have resisted losing their jurisdiction, they are aware that if a compromise is necessary, it would be easiest to give up regulation of alien insurance companies, he said.

It is possible that such legislation would allow the government to offer licenses and charters to alien insurers and reinsurers "so long as those parties elect for that charter and meet financial standards imposed by the federal statute," Mr. Greene said.

He said such a statute may require those alien companies to make deposits in the United States equal to 100% of the reserves for U.S. losses those companies have established. In return, the insurers and reinsurers would not be subject to state solvency regulation.

That concept, which Sen. Dingell's staff has put forth, has not gone over well with a lot of domestic insurers and reinsurers, Mr. Greene related.

They have demanded "a level playing field" and have expressed the desire to fall under the federal charter, he said. "You can see what it would mean to a reinsurer if there was a way to operate with federal approval—at a higher standard, mind you—but with a reduction of overhead."

This attitude is a complete turnaround from insurers' positions regarding federal regulation, Mr. Greene observed. In the past, "the leaders of the property/casualty and the life business wanted nothing to do with federal regulation. Today, it is very different."

The insurance business today is "swamped, filled, overwhelmed with closet federalists," he said. While most insurer executives do not have the nerve to "come out foursquare for the pre-emption of the state system," there are "a lot of people who think a federal system would be an improvement."

Particularly in favor of a federal system are insurers that write assessment checks to state guaranty funds to cover insurance company insolvencies, Mr. Greene said.

Many insurers say that state regulators do not take control of failing insurers soon enough and do not call for high enough standards in the first place to prevent insolvencies, he explained.

Brokers, he noted, are outspoken about the need for strong, competitive markets. However, they are not as quick to publicly admit that higher standards would relieve their worry of placing business with potentially insolvent insurers, he said.

"So there's that little extra for them, and I don't see them coming out against this kind of legislation," he said.

## The IRI Difference:

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"In September 1989, Hurricane Hugo put out the lights in our Mount Holly, South Carolina plant," said Stephen C. Knup, Senior Vice President and Chief Financial Officer of Amax, Inc. "The power outage caused the first unplanned interruption in our continuous aluminum production process which had been in operation for about a decade.

"Fortunately, the plant's generator gave us emergency lights and radio transmission," Mr. Knup said, "but it was not capable of generating enough megawatts of continuous electricity to power the production process. In addition, all public power sources in our area of the state were down.

"IRI had a claims representative on the scene within 24 hours," he said, "and he worked with our people to set up an engineering and auditing team. Damage was extensive, involving 75 percent of the plant's dry scrubber emission stacks, measuring 160 feet tall. Also, 360 pots of molten aluminum cooled and hardened, incurring substantial expense to chip out and reline the pots.

"Claims estimates, developed in concert with IRI, were reviewed, refined, approved and forwarded for payment," Mr. Knup said. "We started receiving payments as soon as we requested them,

and within 11 months after the first payment, the loss was paid in full by IRI. This was very impressive.

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Stephen C. Knup, Amax, Inc.



can make a difference

# Hurricane Iniki

Continued from page 1

for up to 12 months' disruption of business, he noted.

Kauai Mayor JoAnn Yukimura projects it may take up to six months for the island to return to normal.

"While we don't feel the damage will approach that of Florida, the business interruption may be prolonged because of the geographic location of the island," said a spokeswoman for Zurich-American Insurance Group in Schaumburg, Ill.

Most of the initial damage estimates from Hurricane Iniki are sketchy because of the difficulty insurance adjusters have had in getting to the island, about 90 miles northwest of Honolulu.

Commercial air traffic was suspended after the storm, and for a few days only so-called "essential personnel" were permitted to go to the island under orders from Mayor Yukimura.

Since part of the air traffic control tower at Lanai Airport, near the county seat of Lihue, was damaged by the hurricane, only daytime flights can land.

And most phone services is down on the island.

The Property Claim Services division of the New-York-based American Insurance Services Group Inc. was not prepared to release an industry loss estimate by Friday—a full week after the disaster.

"I've spoken to several insurance companies who were told by the mayor to limit the number of people coming onto the island," said Patricia Lombard, executive director of Western Insurance Information Service in Los Angeles.

Sources in London differ widely on estimates of insured losses suffered as a result of Hurricane Iniki.

While loss assessor Balcombe Group is predicting insured losses from Hurricane Iniki will be between \$2.5 billion and \$5 billion, others are skeptical.

"Nobody knows yet what the loss will be, but I would have thought that \$5 billion is rather high, as there are only 50,000 people on the island," said George Lloyd-Roberts, chairman of the Lloyd's Underwriters' Non-Marine Assn.

The \$5 billion figure is probably too high, agreed Gerry Oijlslager, deputy underwriter for Syndicate 1068 managed by Merrett Underwriting Agency Management Ltd.

"And most of the losses will stay with the insurers in the (Hawaiian) islands or California," he said.

Early—and sketchy—predictions in London see an \$800 million insured loss as a result of the hurricane, of which around \$100 million might be paid by London underwriters, Mr. Oijlslager said.

Late last week London underwriters had been notified of three potentially large losses as a result of Hurricane Iniki, two of which were for hotels on the island.

All three risks are led in London by Lloyd's of London syndicate 210, managed by Sturge Non-Marine Syndicate Management Ltd.

"We have been told of three accounts that have suffered severe damage but we don't know the extent of the damage yet," said Alan Lee, underwriter for syndicate 210.

One notice is from Amfac Inc., a Honolulu-based retailer, land developer and sugar grower owned by JMB Realty Inc., which has suffered damage to crops and property, Mr. Lee said. The property coverage has \$10 million in limits, he said.

The second loss to hit London is the Westin Kauai. The coverage, with \$75 million in limits, is primarily insured by CIGNA Corp. units, but about 10% is placed in London where it is led by Mr. Lee.

CIGNA would not comment on the Westin coverage, but the insurer so far has only received a "handful" of hurricane claims, a spokesman said. More are expected, but CIGNA expects losses will not be huge since it writes little coverage in Hawaii.

The mammoth Westin Kauai—spread over 500 acres—does not expect to reopen until early 1993, according to a spokeswoman for the Seattle-based hotelier.

"We had blown-out windows, flooding and landscape damage valued in the tens of millions of dollars," she said.

The third notice in London so far is from Nestle USA Inc., owners of Stouffer Hotel Co., which has hotels in Hawaii, Mr. Lee said. The hotel has \$50 million in coverage.

The extent of the damage on all three risks will not be known for several days.

"All we know so far is that there is severe damage and the loss adjusters are in there," Mr. Lee said.

Kauai, a lush tropical island nicknamed "the Garden Isle," has some 7,000 hotel rooms managed by such hospitality industry giants as Westin, Hilton, Hyatt, Sheraton and Aston, to name a few.

With per-night rates averaging about \$150 during the winter tourist season, lost revenues to the island's 70 hotel owners and operators could exceed \$1 million per day.

"And that doesn't include food," points out Michelle Patton, vp-risk management for Hilton Hotels Corp. in Beverly Hills, Calif. "We make a lot of money off of our restaurants and shops."

The Hilton Hawaiian Village at Waikiki Beach, on the island of Oahu, sustained moderate damage when hurricane winds blew sand into its beachfront lobby, she said.

"We lost the use of a restaurant and a bar downstairs for a couple of days," and a dock was devastated, she said.

However, damage to the Kauai Hilton & Beach Villas had not yet been assessed, Ms. Patton said. "Kauai is a (Hilton-managed) hotel that's privately owned," she explained. "But initially there appears to be very little damage other than loss of electricity and business interruption."

Aston Hotels hopes to have its four properties on Kauai refurbished within 90 days, but "the question is whether the infrastructure will be in place by then to accept visitors," a spokesman for the Honolulu-based chain said.

All four Aston Hotel properties on the east side of Kauai were closed after winds peeled off roofs, leaving rooms open to rain.

Initial damage to the structures was estimated at \$2 million, but the loss will likely grow if the interiors cannot be salvaged, the spokesman added.

Hyatt is offering refunds or re-bookings to anyone planning a trip to Kauai in the next 30 days. But whether the Hyatt Regency Kauai would be open by then is anybody's guess, said a spokeswoman for the Chicago-based chain.

"It's too early to tell," she said. "The hotel is closed at this point and we don't know when we'll reopen."

After assessing its 10 properties in Hawaii, IIT Sheraton Corp. reports that seven properties on Oahu and Maui sustained only minor damage. But the three hotels on Kauai—Sheraton Kauai Beach Resort, Sheraton Kauai Garden Hotel and the Sheraton Mirage Princeville Hotel—will likely remain closed through year-end.

However, the Princeville Hotel, which sustained severe roof and water damage to the lobby, is taking in storm refugees and hurricane re-

covery personnel, according to a spokeswoman for the Boston subsidiary of IIT Corp.

Meanwhile, insurers were struggling to send representatives to Kauai to assess damage.

State Farm Group has about 80 claims people "commuting" to the island by boat from the island of Oahu, where Honolulu is located, said a spokesman for the Bloomington, Ill.-based insurer.

State Farm on Friday said it estimated it would pay \$225 million in personal lines damage, \$90 million in commercial lines damage and \$5.5 million in flood damage.

But that is dwarfed by the 110,000 claims totaling \$1.5 billion that the insurer expects to pay from Hurricane Andrew (BI, Sept. 7). "Everything pales in comparison to Andrew," the spokesman said.

Insurers last week continued to revise estimates of damage from Andrew (see related story).

Factory Mutual Engineering & Research Organization, a loss control engineering firm owned by members of the Factory Mutual System, has sent six adjusters and four engineers to the island not only to adjust claims, but also to help commercial policyholders get up and running as soon as possible.

However, all three FM insurers said they were expecting few claims from the storm.

A spokeswoman for Arkwright Insurance Co. said that reports of claims "were almost non-existent. We may have some property on a utility, but we don't know for sure."

Allendale Mutual Insurance Co. has some business on the island, but as of late last week had not received any claims, said a spokeswoman. Protection Mutual Insurance Co. also expected few claims.

Getting around the 350,000-acre island—which has only one main highway along the coast that does not circle the entire island—has been challenging, a spokeswoman for FM Engineering & Research

said.

"Lihue is the only place with phone service, and gas is being rationed because there's no electricity to drive the pumps," making it hard for claims people to get around, she said. "A lot of them are car-pooling."

"In many ways they're worse off than they were in Florida," observed Gary S. Keith, manager of operations of Factory Mutual's engineering division.

In Florida, claims people could drive a few miles to reach basic services, but on Kauai, "they're on an island—literally," he said.

Many insurance adjusters were uprooted from Florida, where they had been working long hours since Andrew struck Aug. 24.

"We had to send West Coast adjusters from our Westlake (Calif.) office from Andrew to Iniki," the State Farm spokesman said.

"We called in a team of adjusters that had been working on Typhoon Omar on Guam and Hurricane Andrew in Miami," said a spokeswoman for Honolulu-based First Insurance Co. of Hawaii Ltd., a subsidiary of Continental Corp.

Allstate Insurance Co., which had received around 900 claims on Kauai late last week, had 11 adjusters on the island and was sending in 30 reinforcements to handle claims.

"It will be next week before we have any information," said a spokesman for Fireman's Fund Insurance Cos. of Novato, Calif., one of Hawaii's major property/casualty underwriters with \$80.9 million in net premiums written there in 1991, according to A.M. Best Co.

"Our first contingent didn't get there until Wednesday," he said.

Local insurers, like First Insurance Co. of Hawaii, have had less difficulty gaining access to the island. The insurer set up three drive-in claims bays on the island to handle auto insurance claims and a claims office in Lihue is being used as a staging point for all other types

of hurricane-related claims.

"The hurricane hit on Friday and we had our first five people there by Sunday. Since then, they've been going in groups of eight or 10 or 12, depending on how much space there is available on commercial flights," a spokeswoman said.

"The preparation was better this time than it was for Iwa," she said. Hurricane Iwa hit Kauai 10 years ago, causing \$137 million in insured property damage, according to the Insurance Information Institute.

The Hawaiian Insurance & Guaranty Co. Ltd. of Honolulu set up temporary claims office in Lihue.

"Our Kapaa office is open to accept claims, but there's no phone or electricity yet," a spokesman for the Honolulu-based insurer said. Kapaa is about 10 miles north of Lihue.

While media attention has been focused on Kauai, insurers have also begun receiving claims for wind and water damage on Oahu.

Liberty Mutual Insurance Co. received 65 claims from property owners on Oahu by late last week, compared with just 35 on Kauai.

As of Thursday, Transamerica Insurance Co. received 200 claims from Oahu and 100 from Kauai.

American International Group Inc. has no figure yet for losses from Hurricane Iniki, and does not expect to have one for about two weeks.

IIT/Hartford Group Inc., which has about 1,000 policyholders on Kauai, has no estimates on losses yet from Hurricane Iniki. Hartford has more policyholders on Oahu, but losses should be small because damage was less severe there and the policies are smaller, a spokesman said.

By the weekend, Hartford had sent 22 claims processors and adjusters to Kauai, along with 50 electric generators, he added.

Associate Editors Michael Bradford, Sara Harty and Gavin Souter and Staff Reporter Sara Marley contributed to this report.

## S&P finds surplus shelters industry from storms

Strong policyholder surplus throughout the insurance industry at the beginning of 1992 will enable most insurers to weather Hurricanes Andrew and Iniki without serious financial effects, a Standard & Poor's Corp. report says.

U.S. insurers began the year with a \$162 billion surplus, sufficient to sustain even the record \$11 billion in catastrophic losses so far, S&P reported last week.

However, some dispute whether actual surplus is that high (see story, page 70).

And, S&P predicts the industry will end the year with its highest combined ratio—111% to 112%—since 1985.

The disasters also could overwhelm "some insurers overexposed to property damage claims and unprotected by catastrophe reinsurance," the report found.

S&P identified 29 insurers that have less in surplus than in premiums written in Florida and Louisiana in affected lines of business. Reinsurance was not considered, however, because insurers are not required to report the existence or extent of catastrophe reinsurance until claims are generated.

Insurers may also have been writing in areas of the states untouched by Andrew, the report cautioned.

Gross losses will exceed premiums written in Florida and Louisiana for both State Farm Group and Allstate Insurance Co., said S&P Vp William Cavanagh.

Bloomington, Ill.-based State Farm will suffer an aftertax loss of \$1 billion, which is not reinsured and is more than 5% of its policyholder surplus.

After taxes and reinsurance, Allstate, headquartered in Northbrook, Ill., anticipates a \$700 million loss, or 13% of its 1991 year-end surplus.

"We are not expecting much to happen to the market due to Andrew and/or Iniki," said Alan Levin, an S&P senior vp in New York. "The industry is not significantly or seriously hurt by these catastrophes."

It is likely that only Allstate will be downgraded on S&P's claims-paying ability rating, and that would be no more than two notches from its current AA+ rating, leaving it in the AA range, Mr. Levin said.

Moody's Investors Service is also reviewing Allstate and parent Sears, Roebuck & Co. for a possible downgrade. "The review is prompted by Hurricane Andrew's potential impact on Allstate's ability to continue to pay dividends to Sears and to maintain appropriate capital levels," according to a written statement. However, Moody's will also look at improving trends in Allstate's core operations.

The senior debt of Chicago-based Sears is currently A2, while Allstate's insurance financial strength rating is Aa1.

Meanwhile, several insurance companies last week updated loss information from Andrew.

Based on new claims information, Travelers Corp. now estimates that net losses from Hurricane Andrew will reduce its third-quarter earnings by \$175 million to \$225 million. Travelers earlier had estimated the net impact of Andrew would be \$70 million (BI, Sept. 14).

IIT/Hartford Group Inc. has settled 3,607 of 8,092 claims filed from

Hurricane Andrew. So far \$26 million of an estimated total net after-tax loss of \$70 million has been paid to policyholders in Florida.

USF&G Corp. also has recalculated its losses, increasing an estimate of its total net loss to \$45 million from \$40 million, a spokeswoman said.

The Home Insurance Co. last week estimated its net loss from Andrew at \$20 million.

Hartford Steam Boiler Inspection & Insurance Co. is estimating Hurricane Andrew losses from 232 claims to be \$19.2 million gross and \$10.5 million after reinsurance.

Aetna Life & Casualty Co.'s estimated net aftertax losses remain at \$65 million, a spokesman said. Aetna was one of the last insurers to make an estimate and does not expect an increase in losses, he said.

Some reinsurers also ventured estimates of Andrew losses.

NAC Re Corp. expects net aftertax losses from Hurricane Andrew to be about \$19 million, while Iniki will produce a \$5 million charge. The reinsurer expects the bulk of these charges to be included in third-quarter results.

Phoenix Re Corp. estimated that losses from Andrew will reduce the company's 1992 earnings by about \$4.8 million.

US Facilities Corp. expects Andrew to cost about \$1 million on a net aftertax basis, most of which stems from reinsurance written by its USF Reinsurance Co. unit.

Staff Reporter Sara Marley, Associate Editors Sara Harty and Laura Mazzuca and Senior Editor Douglas McLeod contributed to this report.

# Direct rates unaffected

## But Iniki losses add more pressure on cat cover pricing: Analysts

By SARA MARLEY

While Hurricane Iniki likely will drive catastrophe reinsurance prices still higher and further tighten the retrocessional market, many industry analysts say it will have little effect on primary insurance rates.

Some, though, say insurers and reinsurers should use the double-barrel hit from Hurricanes Andrew and Iniki to force an overdue turn in the market. They contend that the industry's true capital is not close to what is being reported.

On Kauai, "it appears the larger commercial structures were not severely damaged," said Alan Levin, senior vp of Standard & Poor's Inc. in New York. "This is not going to turn the cycle."

"Iniki is skewed toward a half-dozen insurers. It will not have much of an impact beyond them," said Harry Fong, a Conning & Co. analyst in Hartford, Conn.

However, the same reinsurers affected by Andrew are likely to get hit by Iniki, said Michael Smith, senior vp of Lehman Bros. Inc. in New York. Iniki will "add to the losses and add to the pressures, particularly in retrocession."

The hurricanes will accelerate hikes in catastrophe reinsurance rates, which already have been rising for four years, according to S&P Vp William Cavanagh (see story, page 1).

Those increases, however, are "not passed down to the primary market to any great extent," Mr. Smith said.

Ceding insurers also may increase retentions as they did after Hurricane Hugo in 1989, said Gloria Vogel, first vp with Shearson Lehman Brothers Inc. During renewals, insurers will "find reinsurance protection not available or priced so high that they decide they want to keep more."

However, Barbara Stewart, a principal with Stewart Economics Inc. in Atlanta, said that insurers will seek higher limits from reinsurers at a lower attachment point. But, capacity reductions will make that difficult, she said.

"Ceding companies want to retain the cash. They have been unwilling to pay the higher reinsurance costs," Ms. Stewart said.

But, greater emphasis by regu-

lators and rating agencies on capital preservation and the possibility of risk-based capital requirements are forcing insurers to reconsider.

Some analysts, though, disagree with the cavalier attitude many have taken toward the catastrophes.

"I am stunned that so many gurus and industry people are looking upon Andrew as a non-event," said Myron M. Picoult, managing director and senior insurance analyst with Oppenheimer & Co. in New York.

If the market will not turn without "a \$40 billion loss with lots of large companies out of business, then it's too late. Perhaps this industry is not worthy of investor participation," Mr. Picoult said.

A market turn was overdue before the hurricanes struck, he said. "It's a whole culmination of pitiful returns and compromised balance sheets."

If the industry is overcapitalized as many observers say, then insurers would be rebuying their stock aggressively and would not shy away from proposals of risk-based capital, Mr. Picoult said.

David Seifer, vp of Donaldson, Lufkin & Jenrette Inc. in New York, disagrees that the U.S. property/casualty insurance industry has \$160 billion of capital.

"If reserves were properly allocated and there was some recognition of uncollectibility (of reinsurance), the real capital number would be in the \$85 to \$90 billion range," Mr. Seifer contends.

"The industry is vulnerable to loss. They don't have the capital or the cash flow," he said.

Mr. Seifer expects damage estimates from Andrew to rise, possibly to as high as \$12 billion. In particular, business interruption losses may be understated. "From all the pictures I see, I don't see much action."

In the first half of 1993, "we will be seeing definite efforts to improve underwriting margins," including raising retentions and tightening terms, Mr. Seifer said. "There will be a slow, steady reallocation of capital and revision of marketing strategies."

However, Mr. Smith of Lehman Bros. predicted that primary insurers could sustain a loss of \$20 billion after reinsurance before enough capital was drained to force a mar-

ket change.

Hurricane Andrew is likely to cost primary insurers only \$4 billion after reinsurance, while Iniki may cost only \$250 million, he said.

Andrew will drain less than 10% of the U.S. insurance and reinsurance industry's capital and only 1% to 3% of the average insurer's capital, Ms. Vogel said. Individual companies would not need to raise their rates until they lost 10% of their capital, she added.

"It's clear that at some point there is a magic number that will awaken the industry," Mr. Fong said. "I'm not convinced it is here yet."

"Catastrophes traditionally have not been the principal factors causing the industry to turn rates around. They have played a contributing role," he continued.

The prolonged soft market has led insurers to set rates by individual state and line of business, Mr. Levin said. Losses from Andrew and Iniki "is not a reason to raise rates" across the board, he added.

The concentration of Andrew's losses in the personal lines market makes it even less likely to affect commercial lines rates, Ms. Vogel said.

Compounding insurers' inability to raise rates is new opposition by state regulators in the wake of a memo by a top American International Group Inc. executive urging underwriters to increase prices due to Andrew (see story, page 65 and *BI*, Sept. 14).

The latest regulator to jump in the fray is Washington Insurance Commissioner Richard Marquardt. The department plans to scrutinize rate requests, which are subject to prior approval, to ensure that they are based on loss experiences in the state, not nationwide, a spokesman said.

But, before insurers ask regulators to raise rates, they could use higher rates now filed with states that are being discounted in the competitive market, Mr. Fong said. Insurers "have the flexibility to raise commercial rates without going to the regulators."

Mr. Picoult urged insurers not to write business in states where rate increases are not allowed. "If they are not permitted a fair rate of return, they are not justified in risking their capital." ■

## Hurricane losses jeopardize MCA Insurance

NEWARK, N.J.—Oklahoma regulators are discussing what, if any, action should be taken to protect MCA Insurance Co. and its policyholders following devastating losses from Hurricane Andrew.

Preliminary losses in Florida incurred by the Motor Club of America subsidiary exceed \$50 million, while reinsurance will cover only \$20 million of that total.

The loss estimate represents about 4,000 claims, mostly from homeowners and small businesses.

The insurer's policyholder surplus stood at \$23.9 million at year-end 1991.

MCAIC, which is domiciled in Oklahoma, wrote 21.1% of its business—or \$8.5 million in 1991 direct written premium—in Florida, according to A.M. Best Co.

MCAIC's catastrophe reinsurance is led by Lloyd's of London syndicates, with Allstate Insurance Co. serving as the lead U.S. reinsurer, according to Patrick J. Haveron, Motor Club of America's vp and controller.

Employers Reinsurance Co. of

Overland Park, Kan., writes excess-of-loss reinsurance for MCAIC, he said.

The losses incurred by MCAIC have forced Motor Club of America, which is based in Newark, N.J., to take a \$21 million charge in the third quarter.

That amount is equal to its entire investment in MCAIC and subsidiary Property-Casualty Co. of MCA, Mr. Haveron said. However, the club's operations are not expected to be affected by the charge.

After the write-off, the club will have shareholder's equity of \$8 million.

Andrew "certainly has jeopardized" the solvency of MCAIC, said Cathy Weatherford, the Oklahoma insurance commissioner. "The company also has very productive books of business. We may be able to give them the opportunity to bring the company back into a good financial picture."

State regulators set a Sept. 25 deadline for the company to present a corrective plan, which may include a capital infusion from its cor-

porate hierarchy, she said.

Thrifty Rent-A-Car holds a 44% stake in Motor Club of America. The rental car company is a subsidiary of Pentastar Transportation Group Inc., which is owned by Chrysler Corp.

MCAIC writes fleet insurance nationwide for Thrifty, as well as contract surety coverage.

"The rental car and surety business was not affected by the hurricane," Mr. Haveron said.

Another Oklahoma-domiciled group of insurance companies may suffer serious losses from Hurricane Andrew, but MCAIC is the only potential insolvency stemming from the hurricane, according to Ms. Weatherford.

Due to the losses, Motor Club of America has canceled the spinoff of another insurance subsidiary, Motor Club of America Insurance Co. of New Jersey, to MCA's existing shareholders.

NJ-MCAIC writes only New Jersey private passenger automobile insurance.

—By Sara Marley

## Update

### Mid Ocean startup seen shortly

HAMILTON, Bermuda—Proposed property catastrophe reinsurer Mid Ocean Reinsurance Co. Ltd. will be able to "hit the ground running" after the imminent completion of capital-raising activities says President Ian Heap.

Mr. Heap says he cannot say exactly how close Mid Ocean Re is to hitting its startup capital target of \$300 million, though executives attending the Rendez-Vous de Septembre earlier this month said the facility was oversubscribed.

Marsh & McLennan Cos. Inc. and J.P. Morgan & Co. mounted the effort to raise the capital for the facility, which would provide excess-of-loss catastrophe limits of up to \$30 million per occurrence per ceding company, subject to an overall \$250 million per occurrence limit per geographical zone (*BI*, June 22).

Charles H.A. Skey, a director of CentreWrite Ltd.—the reinsurer formed by Lloyd's of London to run off open syndicates—has agreed to act as underwriting consultant to Mid Ocean. Back-office activities will be provided by X.L. Insurance Co. Ltd. Shareholders of parent EXEL Ltd. authorized up to a \$100 million investment in Mid Ocean.

### Poultry plant owner sentenced

HAMLET, N.C.—The owner of the Hamlet, N.C., poultry processing plant where a fire killed 25 workers last year may serve less than three years of a nearly 20-year prison sentence imposed in connection with the blaze.

Emmett Roe, who headed the now-defunct Imperial Food Products Co., faced up to 10 years for each of 25 counts of involuntary manslaughter. After the fire, inspectors found that the plant lacked fire alarms and sprinklers and that escape doors had been locked (*BI*, Oct. 7, 1991; Sept. 9, 1991).

After learning the state had never inspected the 11-year-old plant, the Occupational Safety and Health Administration threatened to strip the state of its authority to run its own workplace safety program (*BI*, Jan. 13). That threat was later dropped.

Under a plea agreement, Mr. Roe, 65, was sentenced in state court last week to 19 years and 11 months in prison. He will be eligible for parole in about three years. As part of the deal, charges were dropped against the plant manager and operations manager.

Imperial Foods was earlier fined \$808,150 (*BI*, Jan. 6).

### Asbestos consolidations fought

PHILADELPHIA—A federal judge is proposing to consolidate more than a dozen cases involving bankrupt former asbestos makers with an already amalgamated case involving thousands of financially solvent asbestos manufacturers.

However, attorneys for both the bankrupt companies and people alleging injury from the companies' products have filed motions with the federal multidistrict litigation panel seeking to block the proposal by U.S. District Judge Charles R. Weiner, who is hearing the already-consolidated case in Philadelphia.

Attorneys for both parties claim that consolidating the cases would slow down the bankruptcy proceedings.

However, defendants in the consolidated personal-injury suits already before Judge Weiner support the plan, claiming it would spread the burden of paying for asbestos injury claims.

The multidistrict litigation panel has ordered a November hearing on the proposal.

### Briefly noted

Alexander & Alexander Inc. can sue former employees who defected to Frank B. Hall & Co. Inc. for violating **non-compete agreements** they signed with A&A, a federal appeals court has ruled. The decision settles conflicting rulings by two lower courts (*BI*, Sept. 23, 1991). . . . The Labor Department is extending through Dec. 31 a period of reduced penalties for employers that did not file **Form 5500** annual reports for their pension and welfare plans. Plan administrators who file overdue annual reports will be liable only for a penalty of up to \$50 for each day a report was late, up to a maximum of \$1,000. . . . California Gov. Pete Wilson has called a special session of the Legislature on Oct. 8 to discuss a Republican **workers comp reform measure**. Mr. Wilson, a Republican, promises to veto Democratic-sponsored legislation to reform the state's ailing workers comp system, saying that it doesn't go far enough (*BI*, Sept. 7). . . . **Health Insurance Assn. of America** President Carl J. Schramm is resigning to become executive vp of Fortis Inc., a New York-based holding company for a network of speciality insurers. . . . **American International Group Inc.** will become the first insurer to open an underwriting office in the new Lloyd's of London's building. . . . A U.S. Bankruptcy Court has approved an agreement settling litigation between the Pension Benefit Guaranty Corp. and Continental Airlines Inc. over the termination of seven **underfunded plans sponsored** by former Continental unit Eastern Airlines Inc. The agency values the settlement at \$115 million to \$130 million. . . . **Wind, hail and tornadoes** caused an estimated \$20 million of insured property damage to portions of Oklahoma Sept. 1-2. . . . **General Reinsurance Corp.** Senior Vp Kenneth J. LeStrange has taken early retirement. Mr. LeStrange remains a consultant to the reinsurer. . . . Hull repairs on the **Queen Elizabeth 2** passenger liner, which ran aground Aug. 8 (*BI*, Aug. 17), will cost insurers around 2 million pounds (\$3.6 million), underwriters say. . . . **Oregon employers** will save an average of \$57 million in workers comp premiums next year because the average base premium for voluntary market coverage is dropping 11.4% next year. . . . **Lloyd's oldest non-marine syndicate**, syndicate 404, managed by Cuthbert Heath Underwriting Ltd., is not accepting new business and will go into runoff. The syndicate's 1989 account is still open due to pollution and asbestosis losses.

# Catastrophe market faces Pakistan flood claims

LONDON—The London catastrophe reinsurance market faces tens of millions of dollars in claims if floods that have devastated the Pakistani countryside hit major industrial areas.

Little property in Pakistan is insured, but London sources estimate that catastrophe reinsurance losses so far amount to between \$30 million and \$40 million. If major cities are flooded, many more claims could hit the

London market.

So far, the floods have killed more than 4,000 people and left more than 1 million homeless.

Last week, London sources speculated that the Pakistan insurance industry's retentions would cover most of the marine hull and cargo losses. Underwriters avoided millions of dollars in cargo losses, however, when the cotton crop—which accounts for 50% of the

country's gross national product—was destroyed before it could be picked and stored in warehouses.

A spokesman for the Pakistan Embassy in London says that total losses could be greater than 16 billion rupees (\$640 million). Flood waters have washed through between 18,000 and 20,000 villages and cities, destroying all crops. "When the water goes away, we will know the exact amount of damages and casualties," he said.

—By Stacy Shapiro

# Ohio pollution ruling

Continued from page 2 victory.

"Ohio is another major industrial state, and that carries substantial importance all by itself," said Thomas W. Brunner of Wiley, Rein & Fielding in Washington. The firm represents the Insurance Environmental Litigation Assn., an industry group that filed a friend-of-the-court brief in the case.

The Ohio ruling came in a lawsuit filed by Hybud Equipment Corp. of Akron against Sphere Drake Insurance Co. Ltd. of London.

Between July 1985 and June 1987, Sphere Drake provided general liability coverage to three parties in the litigation: Hybud, which builds and leases waste hauling equipment; Hyman Budoff, a Hybud officer; and Industrial Excess Landfill Inc., a landfill owner and operator of which Mr. Budoff was also an officer and director.

Between late 1987 and 1989, three lawsuits were filed against one or more of the policyholders. One suit arose from bodily injuries and property damage allegedly resulting from pollutants seeping from the landfill. Two other suits filed by the federal and state governments sought cleanup costs for the IEL landfill and another Ohio landfill to which Hybud had allegedly transported hazardous waste.

Sphere Drake refused to defend the three policyholders, citing the pollution exclusion in the two policies it wrote.

In the litigation that followed, a trial court found in Hybud's favor, ruling that Sphere Drake had a duty to defend and indemnify all three policyholders.

A panel of Ohio's 9th Appellate District court later affirmed the decision, citing its own ruling in an earlier case, *Buckeye Union Insurance Co. vs. Liberty Solvents & Chemicals Co.*

In the earlier case, the appellate panel had analyzed the CGL policy's pollution exclusion, which barred coverage except when the re-

lease or escape of contaminants is "sudden and accidental."

Finding the phrase ambiguous, the appellate court interpreted it as having the same meaning as the phrase "neither expected nor intended" in the policy's definition of "occurrence."

Concluding that the pollution was unexpected and unintended by the policyholder, the court found the policyholder was entitled to defense and indemnity.

In its Sept. 16 ruling in the Hybud case, though, the state Supreme Court rejected the reasoning of *Buckeye Union* and found that Sphere Drake is not liable for defending or indemnifying Hybud.

"Specifically, we hold that the word 'sudden' in the exception is not synonymous with the word 'unexpected' in the typical definition of 'occurrence,'" the court ruled. "Instead, the word also has a temporal aspect."

The state high court cited three reasons for its conclusion:

- The word "sudden" is not ambiguous and should be given its common meaning of "abrupt" or "without prior notice."

- "This is the plain and ordinary meaning of the word, and the context in which it is employed does not indicate that it should be given any other meaning," the court ruled.

- Unless "sudden" is given a temporal meaning, the word adds nothing to the phrase "sudden and accidental."

"In its common, ordinary use, the word 'accidental' means unexpected as well as unintended. Under the *Buckeye Union* interpretation, 'sudden' has the same meaning, and accordingly serves no purpose in the phrase," the ruling says.

- Following the *Buckeye Union* interpretation would render the entire pollution exclusion meaningless, since it would only exclude damages already excluded by the definition

of "occurrence."

An occurrence is typically defined as an accident causing damages that the policyholder did not expect or intend, including damages arising from a continuous or repeated exposure to a condition. Thus, an occurrence could be either an abrupt or gradual event, the court notes.

"Under the definition of 'sudden' now adopted by this court in the present case, the exception to the exclusion covers only those damages... caused by an abrupt release. However, if 'sudden' were construed so that it could also mean 'unexpected' and the exception were construed to be just a restatement of the definition of 'occurrence,' then the exception would cover both categories, i.e., gradual and abrupt.

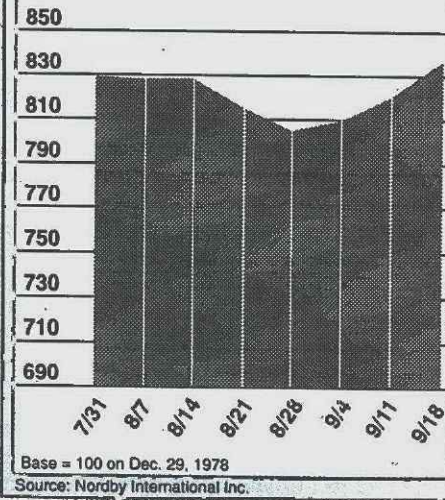
"Because such an interpretation would render the entire exclusion meaningless, it is neither acceptable nor desirable under the normal rules of contract construction," the court found.

The panel also noted public policy arguments supporting its temporal interpretation of the word "sudden."

"Under the *Buckeye Union* interpretation, only an intentional polluter was excluded from coverage. Such an interpretation might encourage the polluter to be less than diligent, as merely negligent acts would be covered under the policy," the court wrote. "In contrast, today's holding encourages diligence by placing the financial burden for gradual or long-term pollution upon the entity best able to foresee and stop it."

The pollution that led to the complaints against Hybud, IEL and Mr. Budoff was never alleged to have been abrupt or instantaneous, the court noted. Thus, it concluded, the "sudden and accidental" exception does not apply and coverage is barred by the pollution exclusion.

# BI Insurance Index



Insurance industry stocks soared last week, as the *Business Insurance Index* climbed 16.3 points to 836.1 on Sept. 18 from 819.8 on Sept. 11. Advancing issues were led by Pacificare Health System, up 13.2%; Hanover Insurance Co., up 10.2%; and Sierra Health Services, up 7.9%. Declining issues followed Tokio Marine & Fire, down 9.5%; Travelers Corp., down 9.1%; and American Indemnity/Financial, down 5.0%. The most active issue was U.S. Healthcare, 5.8 million shares traded. The *BI Index* was up 2.0%; the NYSE Composite was up 0.7%; the Standard & Poor's 500 was up 0.8%; and the Dow Jones 30 Industrials rose 0.7%.

# British Issues

Sept. 17 Companies	Price pence	P/E	Div. pence	Yield %	1 Week	
					High	Low
Comm Union	489	N/M	31.5	6.4	510	475
Genl Accident	478	N/M	35.7	7.5	478	440
Gdn Royal Exch	131	N/M	10.0	7.6	131	124
Royal	142	N/M	7.0	4.9	148	126
Sun Alliance	263	N/M	19.0	7.2	263	239
<b>Brokers</b>						
Bradstock	107	12.0	6.3	5.9	107	101
CE Heath	279	16.2	34.5	12.4	279	263
Hogg Group	105	6.3	10.9	10.4	109	105
JIB Group	129	9.5	10.0	7.8	129	120
Lloyd Thompson	189	18.9	6.0	3.2	189	169
Lowndes Lmbt	243	9.4	16.8	6.9	243	228
PWS Holdings	46	5.3	5.3	11.5	46	43
Sedgwick Grp	131	10.3	8.0	6.1	131	115
Steel Brt Jones	184	9.1	17.7	9.6	184	164
Willis Corroon	177	11.1	17.6	9.9	177	160

# BI Industry Stock Report

SEPTEMBER 14, 1992 THROUGH SEPTEMBER 18, 1992

Company	Exchange	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Company	Exchange	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
					High	Low												High	Low						
Alexander & Alexander	NYS	24.63	-1.99	20.12	25.63	18.00	180	1.00	4.06	103	13.10	1.88	NAC Re Corp.	OTC	-28.75	-3.36	-8.73	33.00	21.75	55	0.16	0.56	13	18.90	1.52
Gallagher Arthur J. & Co.	NYS	25.00	-4.76	11.73	27.25	19.00	41	0.64	2.56	18	5.88	4.25	National Re Corp.	NYS	20.13	-2.42	N/A	23.63	17.00	53	0.12	0.60	10	N/A	N/A
Frank B. Hall	NYS	3.38	0.00	-20.59	5.50	2.63	113	0.00	0.00	-3	1.95	1.73	Navigator Group	OTC	32.00	2.40	-21.95	48.25	28.50	67	0.00	0.00	17	13.52	2.37
Hibb, Rogal & Hamilton	NYS	13.75	-1.79	3.77	14.50	11.00	57	0.40	2.91	22	3.56	3.86	Nobel Insurance LTD.	OTC	4.75	-2.56	18.75	6.00	3.38	191	0.00	0.00	3	7.76	0.61
Marsh & McLennan	NYS	84.38	1.35	3.69	86.38	70.00	793	2.68	3.18	20	28.00	3.01	NWNL Companies	NYS	39.13	-2.19	25.70	43.75	25.25	24	1.48	3.78	11	62.65	0.62
Poe & Associates	OTC	11.75	-2.08	-2.08	16.00	11.25	36	0.40	3.40	15	2.82	4.17	Ohio Casualty Corp.	OTC	61.75	-2.37	24.75	63.50	43.50	241	2.68	4.34	10	18.00	3.43
<b>BROKERS</b>													Old Republic Int'l	NYS	22.00	-0.56	23.94	22.50	15.13	338	0.40	1.82	8	33.09	0.66
Berkley W.R. Corp.	OTC	37.00	2.07	21.31	37.00	23.50	36	0.36	0.97	13	36.95	1.00	Orion Capital Corp.	NYS	39.13	1.29	23.72	40.25	29.00	97	0.92	2.35	6	43.50	0.90
Berkshire Hathaway Inc.	NYS	9400.00	2.45	3.87	9400.00	254.69	0	0.00	0.00	31	7270.00	1.29	Phoenix RE Corp.	OTC	9.50	0.00	-9.52	12.25	8.50	56	0.20	2.11	19	13.30	0.71
ITT (Hartford Group)	NYS	64.25	-0.58	11.26	70.63	50.00	1108	1.84	2.86	18	112.05	0.57	Provident Life	NYS	26.50	0.95	13.98	28.00	18.00	28	1.00	3.77	12	39.50	0.67
Sears (Allstate)	NYS	40.63	-2.40	7.26	48.00	32.50	3604	2.00	4.92	10	34.50	1.18	Re Capital Corp.	ASE	13.00	0.00	-9.57	16.38	12.25	14	0.24	1.85	16	16.07	0.81
<b>CONGLOMERATES &amp; HOLDING COMPANIES</b>													Reliance Group Holdings	NYS	5.63	-2.17	36.36	5.88	3.50	155	0.32	5.69	3	6.40	0.88
Berkley W.R. Corp.	OTC	37.00	2.07	21.31	37.00	23.50	36	0.36	0.97	13	36.95	1.00	RLI Insurance Group	NYS	20.00	5.26	21.21	21.38	14.63	21	0.52	2.60	9	14.41	1.39
Berkshire Hathaway Inc.	NYS	9400.00	2.45	3.87	9400.00	254.69	0	0.00	0.00	31	7270.00	1.29	St. Paul Companies	NYS	70.75	-0.18	-2.92	80.75	57.13	734	2.72	3.84	7	86.60	0.82
ITT (Hartford Group)	NYS	64.25	-0.58	11.26	70.63	50.00	1108	1.84	2.86	18	112.05	0.57	SAFECO Corp.	OTC	50.25	-1.47	3.08	53.38	36.13	775	1.64	3.26	13	51.65	0.97
Sears (Allstate)	NYS	40.63	-2.40	7.26	48.00	32.50	3604	2.00	4.92	10	34.50	1.18	SCOR U.S. Corp.	NYS	13.88	-4.31	-9.76	18.88	13.13	16	2.88	2.02	8	11.19	1.24
<b>CONGLOMERATES</b>													Sabets Bruce Group	OTC	2.50	-4.76	-54.55	7.25	2.13	201	0.36	14.40	-1	10.60	0.24
Berkley W.R. Corp.	OTC	37.00	2.07	21.31	37.00	23.50	36	0.36	0.97	13	36.95	1.00	Selective Ins. Group	OTC	20.50	-1.82	20.90	23.50	15.25	114	1.12	5.53	8	10.75	0.66
Berkshire Hathaway Inc.	NYS	9400.00	2.45	3.87	9400.00	254.69	0	0.00	0.00	31	7270.00	1.29	Statesman Group Inc.	OTC	7.25	-4.92	26.09	8.13	4.38	115	0.00	0.00	4	2.48	2.92
ITT (Hartford Group)	NYS	64.25	-0.58	11.26	70.63	50.00	1108	1.84	2.86	18	112.05	0.57	Tokio Marine & Fire	OTC	45.50	-9.45	-11.65	55.25	32.25	15	0.00	0.00	-	70.93	0.64
Sears (Allstate)	NYS	40.63	-2.40	7.26	48.00	32.50	3604	2.00	4.92	10	34.50	1.18	Torchmark Corp.	NYS	52.25	3.47	35.42	52.25	32.75	571	1.04	1.99	16	40.95	1.28
<b>INSURERS/REINSURERS</b>													Transamerica	NYS	42.00	0.60	5.33	46.75	35.63	561	2.00	4.76	21	55.00	0.76
AEON N.V.	NYS	41.63	5.71	18.93	41.63	28.69	26	2.68	6.44	7	N/A	N/A	Transatlantic Holdings	NYS	38.25	2.00	-1.61	39.63	29.00	94	0.24	0.63	12	18.38	2.08
Aetna Life & Casualty	NYS	39.00	-0.32	-11.36	47.00	33.25	1024	2.76	7.08	13	87.60	0.45	Travelers Corp.	NYS	17.50	-9.09	-19.08	20.75	17.25	3238	1.60	9.14	7	59.00	0.30
Allied Group Inc.	OTC	27.50	5.77	61.76	27.50	16.25	50	0.64	2.33	8	19.85	1.39	Trenwick Group Inc.	OTC	29.25	-1.27	2.63	30.75	23.00	80	0.80	2.74	10	21.71	1.35
American General	NYS	48.38	-0.77	8.71	50.38	39.00	772	2.08	4.30	11	60.00	0.81	United Fire & Casualty	OTC	40.00	0.00	33.33	42.25	28.84	2	1.00	2.50	8	35.39	1.13
American Heritage Life Ins.	NYS	31.75	1.60	3.67	32.25	21.56	2	0.84	2.65	16	N/A	N/A	Unitrin	OTC	37.88	2.36	5.94	38.50	31.00	443	1.20	3.17	13	37.23	1.02
American Indemnity/Finl	OTC	4.75	-5.00	0.00	9.25	4.50	5	0.08	1.68	7	12.93	0.37	UNUM Corp.	NYS	42.50	3.03	4.94	45.00	28.81	554	0.64	1.51	13	37.70	1.13
American International	NYS	95.63	0.86	-2.80	99.38	78.63	1647	0.56	0.59	13	99.30	0.96	US Facilities Corp.	OTC	9.13	5.80	-38.66	19.00	7.00	729	0.00	0.00	7	9.5	

## Crisis impact

Continued from page 1  
counter any future problems with reinsurance recoverables, analysts maintain.

Scandinavian markets were shaken Sept. 8 when Finland's central bank said it would abandon its policy of linking the Finnish markka to the fluctuating European Currency Unit (BI, Sept. 14). On free flotation, the Finnish markka's market value immediately fell 15%.

Currency outflows from Sweden as a result of the Finnish currency's devaluation forced the Bank of Sweden to raise interest rates drastically to defend the Swedish krona.

This move was followed by the collapse of credit insurer Svenska Kredit and its affiliate International Credit Insurance, in which both Skandia Group and Trygg-Hansa are shareholders.

In addition, Trygg Hansa also said earlier this month it would no longer provide funds to its troubled Gota Bank subsidiary, which has turned to the Swedish government for assistance.

Further complicating the situation for Skandia were declines in the value of its stock after an aborted 1991 effort by Hafnia and Norway's UNI Storebrand A/S to gain control of the Swedish insurer.

Hafnia and UNI Storebrand both have suspended payments to creditors. In addition, Hafnia is negotiating to sell its foreign operating subsidiaries, while UNI Storebrand says it may consider such a move in the future (see story, page 13).

In the United States, however, Skandia America and The Home are relatively well insulated from their parents' complex problems.

Skandia America's planned initial public offering is expected to take place within the next week or two, said Steven J. Bensinger, president and chief operating officer of the New York-based reinsurer.

Under terms of the offering described in a Sept. 9 preliminary prospectus, Skandia Group's U.S. unit, Skandia U.S. Holding Corp., plans to sell 9 million common shares in Skandia America for an expected \$18-\$20 per share, raising \$162 million to \$180 million.

Another 2.4 million shares of preferred stock will be sold at \$25 each, for \$60 million. The proceeds of the preferred stock sale will be used to repurchase shares of common stock.

The sale would leave Skandia Group with 49% of the total voting power of the company's outstanding voting securities, or 46.7% if an over-allotment option is exercised.

"We don't expect that the issues in Scandinavia are going to have an effect on us," said Mr. Bensinger. Skandia Group is in "very strong financial condition," he said.

Mr. Bensinger also does not expect the Scandinavian situation will have any impact on the stock sale.

In response to the prospectus, Standard & Poor's Corp. gave Skandia America's claims-paying ability an A+ rating, and rated its \$60 million preferred stock issue BBB+.

The claims-paying ability rating reflects Skandia America's anticipated status as a stand-alone entity. Its rating had been tied to Skandia International Insurance Corp., the immediate parent of Skandia U.S. Holding, whose rating has been lowered to an A claims-paying ability rating from AA-.

Skandia Group's problems should have no impact on Skandia America, said Alan Levin, an S&P senior vp in New York. "They are apparently quite separate from Skandia..."

He noted that according to the prospectus, Skandia Group has agreed to provide Skandia American with up to \$150 million of protection for adverse loss reserve development and potential

uncollectible reinsurance related to the 1987 and prior accident years.

But, "going forward in the future, (Skandia America is) going to be a separate and distinct company," he added.

In the first half of this year, \$45.3 million, or 16.9%, of Skandia America's gross premium volume was attributable to reinsurance purchased by Skandia Group. Skandia America retroceded about \$37.5 million in premiums in the first half to Skandia Group, a significant portion of which was business relating to other Skandia affiliates.

"I think that everything going on (in Scandinavia) will probably have no effect on the Skandia America offering," agreed Russell R. Miller of San Francisco-based Russell Miller Inc., a specialty investment banking firm to the insurance industry.

Skandia Group's role as a minority shareholder in Skandia America "probably shouldn't affect it at all," he said.

A potential investor would look at the company's executives and the quality of its business, said Mr. Miller. He said James F. Dowd, Skandia America's chairman and chief executive officer, is "extremely capable" and said it "seems to be a very solid company. A stock offering 'is likely to succeed,'" he said.

Eric Simpson, assistant vp at A.M. Best Co. in Oldwick, N.J., said Skandia Group's problems in Sweden do not "seem to have an immediate impact" on its U.S. operations. The insurance company fundamentals, for Skandia America and Skandia Group, are sound, he added. "If things are done in an orderly manner, it should have no impact," said Mr. Simpson.

Meanwhile, Moody's is reconsidering its rating for The Home Insurance Co. in response to Trygg-Hansa's difficulties, though S&P has not taken any action.

Citing Trygg-Hansa's situation, Moody's Investors Service has

## Skandia sells workers comp unit

FOUNTAIN VALLEY, Calif.—A subsidiary of Skandia Group is selling its workers compensation insurance affiliate.

Skandia Direct Operations Corp., a Skandia unit, said last week it is selling Anaheim, Calif.-based Great States Financial Corp. and that company's workers comp subsidiary, Great States Insurance Co., to FHP International Corp., a managed health care services company in Fountain Valley, Calif.

Skandia Direct also is selling to FHP another Great States subsidiary, Skandia Benefits Service Co., a third-party administrator.

Terms of the sale were not disclosed.

John G. Pasqualetto, Great States' president and chief operating officer, said the insurer's sale is unrelated to Skandia's recent problems in Scandinavia (see stories, page 1 and 13). "It's really been in the works for some time," he said.

Great States, which operates in California and Arizona, has projected annual revenues of about \$35 million and about \$10 million in surplus, said Mr. Pasqualetto. The company's senior management will be retained by FHP.

FHP, which operates in five Western states, offers life and health insurance through FHP Life Insurance Co. It also operates hospitals and medical centers, said Armando Baez, vp-insurance products for FHP Inc., FHP International's operating subsidiary. FHP International began as a health maintenance organization in 1961, he said.

Mr. Baez said the acquisition, which is expected to be completed early next year, will round out FHP's ability to offer employers a full range of life, health, HMO and workers comp coverage. Until now, FHP has arranged for unaffiliated insurance companies to issue workers compensation policies.

—By Judy Greenwald

placed the Baa2 insurance financial strength ratings of The Home Insurance Co. and the associated members of The Home Insurance Intercompany Pool under review for possible downgrade. It also placed the Ba3 long-term ratings of Home Holdings Inc. on the list.

Marvin Shulman, a Moody's analyst, said in determining the company's rating, "We're looking at three levels": the ultimate parent, the intermediate holding company and the insurance operations themselves.

S&P, though, made no move to change The Home's A- rating, saying it does not anticipate the insurer will need further capital support from Trygg-Hansa.

However, it did put Trygg-Hansa's claims-paying ability rating on its CreditWatch surveillance list, with negative implications.

James J. Meenaghan, president and chief executive officer of The Home, said he was puzzled by Moody's decision to pair Trygg-Hansa with The Home.

"The bottom line" is that Trygg-Hansa's difficulties have no effect at all on The Home, Mr. Meenaghan said. Everything that is being talked about is happening in Sweden and is related to banking and credit insurance operations, he said. "In no way are those entities related to us."

He said even if Trygg-Hansa's assets in both the banking and credit operations deteriorated to zero, it would still have 12 billion krona (\$2.1 billion at current exchange rates) in surplus. This leaves it "extremely well-capitalized" to focus on its core businesses, said Mr. Meenaghan.

He added that The Home on its own had \$950 million in surplus as of July 30, up 5.4% from \$901 million at year-end 1991. Its net premium-to-surplus ratio is about 1.8-to-1. "We feel very comfortable at these numbers."

S&P's Mr. Levin said Trygg-Hansa's problems stem primarily, if not exclusively, from its investment in the Gota Bank. The Home is not affected by this situation, he said, adding that "it's not even Trygg-Hansa's insurance operations that are having any problems."

Michael Smith, an analyst with Lehman Bros. in New York, said he believes the impact of Trygg-Hansa's problems on The Home "will be fairly small."

The problems could limit The Home's growth in the near term if there is an up cycle and it needs more capital to take advantage of it,

he said. "Other than that, I don't think it will have an impact."

U.S. insurers that have placed business with reinsurers in the Scandinavian market are unlikely to be significantly affected by the Nordic turmoil.

Best's Mr. Simpson said that Scandinavia's worldwide share of the insurance and reinsurance market is less than 2%. "I would characterize it as being either immaterial or not overly significant," insofar as U.S. insurers are concerned, he said.

"More than passing concern would be inappropriate," said David Anthony, a senior analyst at Moody's.

He pointed out that non-U.S. reinsurers are required to post letters of credit in the United States guaranteeing payment of losses, which "in effect removes much of their credit risk."

Mr. Anthony also noted that most of the Scandinavian companies work on a divisional basis, with reinsurance handled by their international divisions. These divisions invest their assets in the same currency in which the policy is written. For example, on U.S. risks, these units will invest their assets in U.S. Treasury bonds and highly rated marketable securities or keep it in cash. In contrast, the problems of the parent companies stem from domestic investments made in Scandinavia, he said.

Mr. Anthony said relatively little reinsurance is placed directly by U.S. ceding companies with the Scandinavian reinsurers.

Many Scandinavian insurers entered the international reinsurance market in the late 1970s and early 1980s, but had bad experiences and subsequently largely withdrew from because they found reinsurance to be too unpredictable, he explained.

The exceptions, he said, have been Skandia and UNI Storebrand, which have maintained a relatively substantial presence in the business, though both now say they will no longer consider international reinsurance to be a core activity.

Mr. Anthony also characterized Skandia and UNI Storebrand's problems as esoteric financial issues at the holding company level. "I don't think there's any particular question mark" concerning their insurance operations, he said.

S&P's Mr. Levin agreed there's little need for concern on the part of U.S. insurers. "There's not a whole lot of impact to the American market from the Scandinavian reinsurers directly," he said.

## Candidates' positions

Continued from page 2

Washington-based group opposed to taxation of employer-provided health benefits.

While the meeting was billed as an opportunity for representatives of the two presidential campaigns to present their candidates' views on health care reform, both Mr. Fried and Ms. Wilensky chose instead to criticize the opposing viewpoint.

Mr. Fried, for example, said the Bush administration really had no interest in health care reform until last November when political activist Harris Wofford defeated former U.S. Attorney General Richard Thornburgh—the administration's "hand-picked" candidate—to fill the Pennsylvania Senate seat left vacant after Sen. John Heinz died.

Bolstering his argument that the Bush administration was a Johnny-come-lately to health care reform, Mr. Fried noted that the administration has yet to introduce as legislation all the pieces of a health care package it unveiled in February.

But Ms. Wilensky responded that while the administration at least has a detailed health care reform plan, all that the Clinton campaign has come out with is a thinly documented three-page plan.

"It is vague and elusive," she charged.

Mr. Fried replied that the core of the administration's health care package—providing tax credits and tax deductions of up to \$1,250 for an individual and \$3,750 for a family to make it easier for the uninsured to purchase health care coverage—is a "sham. This is not reality."

Since the annual cost of medical coverage for a family can reach the \$7,000 range, the tax credits and

vouchers would fall short of enabling low-income individuals to purchase coverage, Mr. Fried said.

"Where will the low-income family come up with the money?" Mr. Fried asked.

But Ms. Wilensky said tax credits and tax deductions will "empower" individuals to obtain coverage. That approach makes more sense than requiring all employers to offer health care plans, a requirement that could impede economic growth, she said.

The Bush adviser lashed out at the Clinton plan to set a global health care spending limit. Such a limit, Ms. Wilensky said, would have to be enforced by fixed price controls on health care services, which would lower the quality of care.

"We are fundamentally opposed to a global budget. It is a detriment to quality health care. Trying to micro-manage" the health care system doesn't work very well, she said.

Mr. Fried countered that just as employers have to pay Social Security taxes, they also have an obligation to fund health care coverage for their workers, either by offering a plan or paying insurance premiums to a public plan.

However, the health care coverage mandate would be phased in and tax credits would be provided to small employers to prevent them from "going over the edge," Mr. Fried said.

At the same time, "rational" spending limits are needed to control costs, he said. Without such limits, hospitals, for example, will continue to compete with one another in buying expensive equipment whether needed or not,

Mr. Fried said.

Without some kind of limits to control health care spending, a "heavier-handed" approach will be necessary later, he said.

Judging from the two representatives' comments, President Bush and Gov. Clinton agree on certain elements that should be included in a health care reform package.

The two candidates, for example, want to bar insurers and self-funded employers from denying coverage for pre-existing medical conditions and to prevent insurers from denying coverage to certain members of an employer group—a practice known as "cherry-picking."

Both candidates, their representatives said, also want to make it easier for small employers to band together to buy health insurance on a group basis.

Gov. Clinton favors purchasing cooperatives so small employers will have the same clout as larger firms in the health insurance market, Mr. Fried said.

And the Bush administration has proposed "Health Insurance Networks," a type of group purchasing arrangement for small employers. Those networks are a response to small employers that say the group health insurance market is too expensive and too unreliable, Ms. Wilensky said.

Both candidates also strongly oppose a government takeover of the health care system and want to leave primary responsibility for providing coverage with employers.

"What we want to do fits in with the traditional health care system," in which most people receive employment-based coverage, Mr. Fried said.

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